1995

Comment letters, personal financial planning exposure draft 8/15/95: proposed statement on responsibilities in personal financial planning Practice: Developing a basis for recommendations;

American Institute of Certified Public Accountants. Accounting Standards Executive Committee

Comment Letters Personal Financial Planning Exposure Draft 8/15/95 Proposed Statement on Responsibilities in Personal Financial Planning Practice: Developing a Basis for Recommendations

FROM: Ira H. Somach, 72613,2015
TO: SUSAN A FROHLICH, 102574,666
DATE: 8/30/95 9:42 AM

Re: Developing a Basis for Recommendation

Developing a Basis for Recommendation

Review Comments

Ira H. Somach, CPA
ARC Personal Financial Planning
Jericho, NY
(516) 433-5544
72613,2015 @ Compuserve.com

Overall Comments

Is this statement necessary or does it just feed us to the Lawyers ready to devour our practices ?

This is nothing wrong with a statement which defines the due diligence that is required in the maintenance of our workpapers, the documentation of our results, even the communication with clients but it is practically impossible to regulate and control the decision making process in any fair and practical method.

1) Unlike corporate auditing - we are dealing with individuals. Corporations to exist need to all speak a common language in finance (called accounting). Individuals don't speak a common language, they don't understand basic terms, they don't and more importantly won't learn the basics of personal finance - "That's your job" they tell me.

2) A client wants advice on whether or not they should start a gift program for their children to avoid the gift and estate taxes.

Under these requirements - I would have to charge them tons of money either to do a complete work - up or to write ten different disclaimer letters. Unlike corporations the "cost-benefit" rule applies to individuals.

Why should an individual pay $ 1,000 in fees to save only $ 300 in taxes

3) An 80 year old retiree walks in and insists on buying wheat futures. I have them fill out three hundred disclaimers. I then counsel them to a degree where I feel they are properly educated. Again the client signs disclaimers.

Of course the client loses everything

When I go to court and I say - "But your honor I followed the guidance of the AICPA with regards to decision making " he'll laugh at me and then take away my practice.

What good is a practice aid, that provides little or no guidance, is virtually impossible to implement and in the end can be used as a tool to make lawyers rich at my expense ?

Specific Topics

Collecting Information

As if a CPA who performs PFP services isn't hazardous enough this section is going to have a lawyer parked on my door step.

8. "The CPA should obtain sufficient relevant information" - these words are going to make a possibly litigious situation even worse.

Client X is dissatisfied because his/her overall return on their mutual fund portfolio was only 4.5 % while CDs were yielding 6 %. The client claims in court that I did not review all of the financial outlooks - I counter by saying that the client's profile dictated more aggressive investing. In addition I say that the client told me that they were looking for investments which historically out performed fixed income investments. The client holds up this pronouncement and states :

You were negligent in your "professional judgment". There was "relevant information" and the woman holds up a copy of Forbes and says you ignored their outlook. You should have told me to buy mutual funds but to have waited till the market dipped and bought them cheaper,

This section should be more objective and methodical in its approach.

The CPA PFP practitioner should :

Collect Evidence.
Document Findings
Document Conclusions

#12 Analyzing Information

There should be some statement which says :

The analysis of a client's financial position is directly related to the accuracy and completeness of the personal financial information provided by the client. Prior to any analysis the practitioner should review all of the existing client financial information with the client to ensure the applicability of any analysis with the existing financial information.

15 Integration of Areas

This is not true and unfeasible. Given the variety of options in each of these different areas and the time lag involved a practitioner would constantly be responsible for updating areas that would otherwise not have to be reconsidered.

#16 Restatement of Goals

This section was obviously written by an academician.

You tell your client (s)he cannot be expected to achieve a 200 % return on his/her investment. The client agrees and settles for a modest 18 %. You write in your workpapers that you agreed on a 18 % rate of growth.

The client sues saying (s)he expected a 200 % and you did not communicate to the Client that the assumption of 200 % was unrealistic.

20 Integration of Recommendations

Again this is not possible. Given the variety of options in each of these different areas, the time lag and the volatility involved in the decisions. A practitioner would never end an engagement.

EXPOSURE DRAFT

PROPOSED STATEMENT ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE

DEVELOPING A BASIS FOR RECOMMENDATIONS

August 15, 1995
Comment Date: October 16, 1995

Name and Affiliation: David Glesenkamp, CPA Edward Wood & Co, Inc.

Comments: I see no need for issuing this statement. If it is not an enforceable standard and issued for guidance only, I suggest that anyone looking for guidance will have already at a minimum arrived at ~~this so~~ the conclusion ... that there is a collecting function, followed by analysis of data, followed by strategy and recommendation. Anyone needing this guidance is probably not smart enough to look for guidance. This is such common sense stuff, why spend time and $'s on it.

Instructions for Response Form

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PROPOSED STATEMENT ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE

DEVELOPING A BASIS FOR RECOMMENDATIONS

August 15, 1995
Comment Date: October 16, 1995

Name and Affiliation:

Comments: 1. SHOULD BEGIN BY HAVING ENGAGEMENT LETTER
2. CONSIDER INCORPORATING THIS MATERIAL IN EXISTING PRONOUNCEMENTS. "UNBUNDLING" IS AN UNNECESSARY COMPLICATION.
3. STATEMENT 9. SHOULD BE STRICKEN.
4. IN STATEMENT 17. THERE WOULD BE INSUFFICIENT DATA TO ASSESS IMPACT.
5. STATEMENT 20. IS REPETITIOUS, SEE STATEMENT 15.
6. MENTION SHOULD BE MADE TO OBTAIN INPUT FROM EXPERTS IN OTHER FIELDS, I.E., INSURANCE, LAW, ETC.
7. THE CONTENT OF THIS PRONOUNCEMENT DOESN'T SEEM TO FIT THE TITLE.

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August 15, 1995
Comment Date: October 16, 1995

Name and Affiliation:

Comments: 17, 18, 19 + 20 — Re Recommendations:

Regardless of "Clients" Goals - even if [illegible] - CPA should make all his recommendations that what client wants to do will or will not work. Then CPA can recommend solution or avenue to approach best way to attain Goals

P.S. I don't think too much of this draft

James Fraser 9/1/95

Instructions for F

This form may be used for comments or
the exposure draft that is of concern or inte
the address indicated on the reve

00270820 43
JAMES JOHN FRASER
TETRICK BARTLETT & CO
P O BOX 1916
CLARKSBURG WV 26302-1916

EXPOSURE DRAFT

PROPOSED STATEMENT ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE

DEVELOPING A BASIS FOR RECOMMENDATIONS

August 15, 1995
Comment Date: October 16, 1995

Name and Affiliation: MICHAEL COLLOPY, CPA

Comments:

Ms. Frohlich:

Overall, good summary of responsibilities
A few minor comments:

#4c. The client "selects" the strategy; the CPA "identifies" or "recommends" appropriate strategies.

#7 Do we mean to imply that the CPA does not have clear responsibilities relating to qualitative, difficult to "measure" goals? What exactly is measurable and what is not?

Best regards,

M. Collopy

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When finished, may choose to underline key word(s) in the stmts

PROPOSED STATEMENT ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE

DEVELOPING A BASIS FOR RECOMMENDATIONS

DEFINITION AND SCOPE

1. This Statement is intended to provide guidance to the certified public accountant (CPA) engaged by a client to develop personal financial planning recommendations.

2. Financial planning recommendations are suggested actions developed to assist the client in achieving financial goals.

3. Recommendations are based on analyses and other procedures that are conducted prior to and in preparation for developing suggested actions. The CPA's knowledge and experience also contribute to the basis for recommendations.

4. Developing a basis for the recommendations involves the following:

   a. Collecting relevant quantitative and qualitative information, including, but not limited to:
      1) The client's goals, existing financial situation, and available resources.
      2) Nonfinancial factors such as client attitudes, risk tolerance, family considerations, age, health, and life expectancy.
      3) External factors such as estimates of inflation, taxes, economic conditions, legislative activity, investment markets, and interest rates.
      4) Reasonable estimates, projections, and assumptions furnished by the client, provided by the client's advisers or developed by the CPA.

   b. Analyzing the client's current situation as it relates to the client's goals and objectives and identifying strengths and weaknesses of the existing financial situation.

   c. Formulating, evaluating, and selecting appropriate strategies and courses of action for achieving the client's goals.

GUIDANCE APPLICABLE TO DEVELOPING A BASIS FOR RECOMMENDATIONS

5. The CPA should apply existing applicable professional standards and should consider the guidance included in other published Statements on Responsibilities in Personal Financial Planning Practice (SRPFPs).

6. The CPA should document the nature and extent of the procedures performed in developing financial planning recommendations. The CPA should refer to paragraph 12 of SRPFP No. 1, *Basic Personal Financial Planning Engagement Functions and Responsibilities* (AICPA, *Professional Standards*, vol. 2, PFP sec. 100) for additional documentation guidance.

COLLECTING INFORMATION

7. Since personal financial planning recommendations are developed to address specified goals, the CPA should obtain an understanding of the client's measurable goals.

8. The CPA should obtain sufficient relevant information to form a basis for recommendations to assist the client in achieving his or her financial goals. The nature and amount of information will depend upon the scope and complexity of the engagement and the professional judgment of the CPA.

9. If the CPA is unable to collect sufficient relevant information to form a basis for recommendations, he or she may restrict the scope of the engagement to those matters for which sufficient information is available. The CPA should communicate to the client any limitation on the scope of the engagement, as well as the fact that this limitation could affect the conclusions and recommendations developed.

10. If there is not sufficient information to proceed, the CPA should consider terminating the engagement. The CPA should communicate notice of such termination to the client.

11. Communications involving limitations on the scope or terminations of engagements should ordinarily be in writing. The CPA should refer to SRPFP No. 1, paragraphs 5 and 17, for further guidance when engagements are limited in scope.

ANALYZING INFORMATION

12. The nature and extent of analyses and other procedures performed in developing a basis for recommendations are affected by the scope and objectives of the engagement. However, even when an engagement addresses a limited number of specific personal financial goals, the CPA should consider the client's overall financial circumstances in developing recommendations. For example, in considering ways to achieve the goal of providing for the education of the client's children, other planning areas, such as providing for the client's retirement, may have an impact on that goal.

13. The CPA should evaluate the reasonableness of estimates and assumptions that are significant to the plan.

a. The CPA should consider the appropriateness of the assumptions used.[1] For example, the use of a current rate of return on investments to calculate the amount of capital needed to fund a short-term goal is appropriate if the recommendation is to fund the goal with short-term investments.

b. The CPA should use assumptions that are consistent with each other. For example, an assumed low rate of inflation would be consistent with a low rate of return assumption for future investments in fixed-income securities.

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1 Although projections used in a financial plan often do not take the form of a forecast, the CPA should consider the guidance provided in paragraphs 6.30 to 6.36 of the Audit and Accounting Guide *Guide for Prospective Financial Information*, regarding the use of appropriate assumptions (see the appendix).

c. When performing analysis based upon estimates, assumptions and projections the CPA should consider their sensitivity in relation to the overall plan.[2] For example, in a long-range retirement funding projection, a slight change in the assumed rate of return on investments may significantly impact the projected result.

d. If, during the course of the engagement, the CPA determines that significant estimates, projections or assumptions are no longer valid, the CPA should evaluate the appropriat~~eness of the origi~~nal engagement objectives. The CPA should also revise the collection of relevant information and the analysis of that information, as appropriate. The CPA should refer to paragraphs 10 through 12 of SRPFP No.1, on "Defining the Engagement Objectives."

14. The CPA should communicate to the client the assumptions and estimates ~~that~~ are significant to the plan and should identify those that have a high probability of variation that could materially ~~affect the plan.~~ Such communication should ordinarily be in writing and include a statement that projected results may not be achieved. IN FINANCIAL PLANNING AREAS FOR WHICH THE CPA HAS BEEN ENGAGED WITH ANALYSES IN OTHER FINANCIAL AREAS

15. The CPA should integrate analyses in ~~one financial planning area with analyses in other financial planning areas for which the CPA has been engaged.~~ For example, analysis for college funding may affect or be affected by analysis in risk management, retirement funding, cash management, investment strategies, and/or income, estate, or gift taxation.

16. If the CPA determines that the client's goals cannot reasonably be achieved, the CPA should communicate to the client the need to reconsider the originally stated goals.

FORMULATING STRATEGIES AND RECOMMENDATIONS

17. Recommendations are derived, in part, from analyses of relevant information and should be consistent with the client's goals.

18. The client may impose a constraint upon the engagement that affects the CPA's recommendations. For example, the client may stipulate that he or she will not purchase health insurance. This stipulation may affect the personal financial planning recommendations developed.

19. In situations of a client-imposed constraint, the CPA should communicate to the client the fact that this constraint could affect the conclusions and recommendations developed. Communications involving client-imposed constraints on engagements should ordinarily be in writing. The CPA should refer to SRPFP No. 1, paragraphs 5 and 17, for further guidance when the engagement is limited in scope.

20. The CPA should integrate recommendations developed to achieve one financial planning goal with the recommendations regarding other goals. For example, recommendations for college funding may affect or be affected by recommendations in risk management, retirement funding, cash management, investment strategies, and/or income, estate, or gift taxation.

[2] Although projections used in a financial plan often do not take the form of a forecast, the CPA should consider the guidance provided in paragraphs 6.37 to 6.38 of the Audit and Accounting Guide *Guide for Prospective Financial Information*, regarding the sensitivity of appropriate assumptions (see the appendix).

EXPOSURE DRAFT

PROPOSED STATEMENT ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE

DEVELOPING A BASIS FOR RECOMMENDATIONS

August 15, 1995
Comment Date: October 16, 1995

Name and Affiliation: EDWARDS GROUP CPAS, S.C. PAUL B. EDWARDS CPA -

Comments: DISCUSSION RELATES TO DETERMINING GOALS AND ACTION TAKEN AFTERWARD. IN MANY CASES YOU ARE EDUCATING CLIENTS AS TO WHAT GOALS THEY SHOULD OR COULD HAVE, THEN MAKE SELECTION, THEN MOVE ON TO ACHIEVEMENT.

PRESENTATION IS THE FINAL STAGE AND NO REAL CONSIDERATION OF THE METHODS OF PRESENTATION IS DISCUSSED.

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Name and Affiliation:

Wallace L. Head, Managing Director, Sanford C. Bernstein & Co., Inc.
(former member of the Personal Financial Planning Executive Committee)

Comments:

It is important to keep in mind that personal financial planning is different from auditing or tax compliance or even tax planning. These traditional accounting functions are highly empirical and analytical in nature; and while they aren't totally devoid of emotion, emotions don't play a major role in most audit or tax decisions.

In contrast, emotions do play a major role in most personal financial planning decisions. In my 19 years of helping people analyze and make personal financial decisions, I've found that emotions seldom play a minor role. And I've also found that the best decisions seem to be based on a combination of adequate information, competent analysis and knowledgeable advice.

The Proposed Statement is much better than previous versions I've had the opportunity to review. In fact, my only suggestion is that it somehow be made less antiseptic and audit-like. The language and tone of the Proposed Statement doesn't reflect the personal aspects of personal financial planning. Instead, it seems to view the client as a collection of "quantitative and qualitative information" that includes "nonfinancial factors" and "measurable goals".

What about important characteristics such as the client's prior experience with other "financial planners", feelings about family members or business associates, and goals that aren't very measurable, such as when parents want to help their children develop particular characteristics or when business owners or executives want (or are "required") to demonstrate their corporate commitments?

If the CPA is to be a personal financial planner, and not merely an accountant who provides advice to individuals, he or she needs to base recommendations on appropriate non-financial -- and frequently non-quantifiable -- personal characteristics. The Proposed Statement fails to adequately address this critical need.

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PROPOSED STATEMENT ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE

DEVELOPING A BASIS FOR RECOMMENDATIONS

August 15, 1995
Comment Date: October 16, 1995

Name and Affiliation: GARY L. BOOTH - MCS PROFESSIONAL PRACTICE SUBCOM.

Comments:

EVEN THOUGH CONSULTING STANDARD # 1 EXEMPTS PFP FROM CONSULTING THERE IS CROSSOVER WHEN THE CLIENT OWNS A SMALL BUSINESS AND VALUATION IS NECESSARY. IF THE PFP CONDUCTS THE VALUATION HE SHOULD BE BOUND BY THOSE STANDARDS. I FEEL THAT SECTION ON "COLLECTING INFORMATION SHOULD STATE THAT.

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PROPOSED STATEMENT ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE

DEVELOPING A BASIS FOR RECOMMENDATIONS.

August 15, 1995
Comment Date: October 16, 1995

Name and Affiliation: MARVIN PECHTER - MCS EXECUTIVE COMMITTEE

Comments: THIS IS AN EXTREMELY SIMPLISTIC DOCUMENT AND, IN MY OPINION, WOULD ASSIST SOMEONE DURING THEIR FIRST ENGAGEMENT IN THIS AREA.

THE DOCUMENT AIMS AT PROTECTION OF THE CPA AND THE NEED FOR WRITTEN COMMUNICATION TO THE CLIENT TO DISCLAIM PROBLEMS.

THERE IS VERY LITTLE OF SUBSTANCE IN THIS DOCUMENT

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AMERICAN EXPRESS
FINANCIAL ADVISORS

AMERICAN EXPRESS
TAX AND BUSINESS SERVICES INC.

Suite 140
55 West Financial Center
10405 North Sixth Avenue
Plymouth, Minnesota 55441

Harold J. Bach, CPA/PFS, CFP
Managing Director

Bus (612) 525-0260
Fax (612) 525-1024

September 20 1995

AICPA, PFP Division
Susan Frolich, Technical Manager
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881

Dear Susan:

Reference is made to the August 15, 1995 exposure draft "Developing a Basis for Recommendations" (SRPFP) No. 5.

As chair of our Minnesota Society of CPAs PFP sub-committee on Legislation and Regulation we feel the draft looks great and reads well.

We do have two items for you to consider:

1. All references are made to a "CLIENT" in the singular form. What about married couples? Many CPA planner practitioners prepare plans based on input from one spouse - normally the husband. As women become increasingly assertive, I believe planners are exposing themselves to unnecessary liability when they do not include both spouses in the planning process.

   [I personally know of one such wife who, when presented with a completed plan based solely on her husband's input, felt so humiliated that she seriously considered suing the CPA firm. Her specific comment was "Not only does he (her husband) control every penny I spend now, but he will totally control me from his grave." She felt strongly that the CPA actively promoted the constraints. I know this is a perfectly legal plan representing how the husband wanted his money controlled. However, if we as professionals can be responsive to social changes before the changes are dictated by the courts, a great deal of grief and CPA reputations may be saved.]

2. 4c should be considered to be changed to 4d and a new 4c added "to encourage" CPAs to project data out at least five years, if not further, to see the results for reasonableness. Also recommend that statements of Financial Position and cash flow start with a prospective date and go out the five years, instead of using a historical starting point and mixing the information with "prospective data".

Mixing SSARS 1 and 6 with the Guide for Prospective Financial Information, will cause most CPAs a lot of time on each financial plan that they will not be able to bill. If historic data is used for workpaper summaries only, the whole financial plan could be "prospective". This is what clients want from their CPAs -- future outlooks and not historical information. To "date" a financial report in mid-1995 with historic data from 12/31/94 and prospective data out 5 years causes the accountant problems. Dating a report in mid-1995 for a 12/31/95 statement of financial position (and thereafter) is much easier. (See enclosed, though dated, sample report from Vol. 3 of the PFP manual).

Sincerely,

Harold J. Bach

Harold J. Bach, CPA/PFS,CFP
Managing Director

BACH, SCHLUTER & ASSOCIATES, LTD., CERTIFIED PUBLIC ACCOUNTANTS

Minnetonka Corporate Center (494 & Baker Road)
12900 Whitewater Drive, Suite 190, Minneapolis, MN 55343 (612) 932-9750

September 7, 1987

John & Elizabeth Hartman
One Main Street
Minneapolis, Minnesota 55447

Dear John and Elizabeth:

We are please to provide you with your personal financial plan, which begins with a summary of your biographical data. This overall plan is an analysis of your current financial situation. We have prepared it from information gathered during our meetings and from the questionnaire that you completed. Your objectives and concerns have been the determining factors in this analysis. The advice in this plan is based on your forecasts of future income and expenditures; interpretations of existing tax laws; and estimates of investment performance, inflation rates, and retirement benefits.

Your financial plan is divided into several chapters, as listed in the Table of Contents. This plan examines areas important to your financial needs and objectives. It is intended to be a starting point in helping you develop strategies to reach your financial goals. It also may help you become acquainted with the process of financial planning.

Before you begin to review the data, alternatives and recommendations, we would like to bring to your attention certain limitations associated with the information. In accordance with the professional standards that apply to our practice as accountants, we are including in this transmittal letter a description of certain procedures we performed and certain limitations associated with the financial data in the plan.

Prospective Presentations

We have assembled from information provided by you certain prospective presentations. We have not compiled or examined these prospective presentations and express no assurance of any kind on them. Furthermore, there will usually be differences between prospective and actual results because events and circumstances frequently do not occur as expected, and these differences may be material. These prospective presentations are restricted to internal use by you and your advisers directly involved in formulating this financial plan. The prospective presentations should not be shown to a third party for

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purposes of making a financing or credit decision. In summary, the prospective financial information enclosed was prepared solely to help you develop your financial plan. It may contain departures from generally accepted accounting principles, and should not be used for any purpose other than assisting you in further developing your plan.

Other Limitations

The advice and analysis in this plan are based on estimates of your current and future income and expenditures and estimates of investment performance, inflation rates, and retirement benefits. Changes in your personal circumstances, the investment environment, Social Security benefits, and similar unforeseeable events could modify the appropriateness of the advice in this plan. Therefore, we recommend a periodic review to make sure you are progressing toward the attainment of your financial goals and objectives. The tax analyses are based on information you provided and current tax laws, which are subject to change.

The analyses in this plan regarding insurance coverage and investment alternatives are presented only as guidelines and should not be viewed as an endorsement of a specific product or investment. Before purchasing an investment product, you should thoroughly investigate the product and the offering institution, and seek the guidance of a broker or registered investment adviser.

We believe that only through the implementation of a properly formulated plan will many of your financial objectives be realized. We encourage you to thoughtfully consider the statements and recommendations contained in these analyses. We will be happy to assist you in formulating your immediate plans as well as your future plans. In addition, you should consider the advantages of a periodic review of your plans.

Thank you again for allowing us to assist you in this matter. We look forward to working with you further, and assisting you with the preparation of your 1987 tax returns, at which time you may want us to do a further review or update of your plan.

Very truly yours,

Harold J. Bach, Jr., CPA
President

enclosure

BACH, SCHLUTER & ASSOCIATES, LTD.
CERTIFIED PUBLIC ACCOUNTANTS

PERSONAL FINANCIAL PLAN

CREATED FOR

John and Elizabeth Hartman

TABLE OF CONTENTS

	Client	Spouse
Name:	John Hartman	Elizabeth
Birth date:	03/07/52	08/04/55
S.S. #:	248-24-9634	248-06-4747
Address	One Main Street Minneapolis, MN 55447	
Phone:	(612) 587-8823	

EMPLOYMENT		
Occupation:	Manager	Accountant
Employer:	Taunton Utilities	Ward's Auto Supply
Address:		
Phone:		

CHILDREN/DEPENDENTS	Birth date	Soc. sec. #
Betsy	12/20/78	248-94-5835
Mark	10/25/82	248-94-3827

FINANCIAL OBJECTIVES

To a large extent, your financial plan is concerned with assessing your ability to achieve specific goals. You have designated the following financial objectives in order of priority:

Establish an education fund for your children.

> You presently have assets totalling $2400 set aside for education.

Enjoy a comfortable retirement beginning at age 65.

Provide for your family in the event of death.

Maintain or expand your current standard of living.

Reduce your overall taxes.

> This year, your federal tax bracket is forecast to be 35% before any additional tax planning has been implemented.

Formulate plans to invest and accumulate wealth.

Formulate an effective estate distribution plan to reduce any estate tax liability.

INVESTMENT PREFERENCES

You have indicated that the following represent your investment preferences, in order of priority:

1 Government Bonds
2 Corporate Bonds
3 Growth-oriented mutual funds
4 Income-oriented mutual funds
5 Municipal bonds
6 Money market accounts
7 Common stocks
8 Real estate
9 Variable annuities
10 Commodities

RECOMMENDATIONS SUMMARY

YOUR FINANCIAL STATUS

- Liquidity: Your liquid assets are equal to 5 months of your expenses. This is a good value for your purposes.

- Investment equity: The equity in your investment assets is 100%. This is higher than average. We recommend that you borrow against your investments to free up additional capital.

- Current cash flow: Your cash flow is projected to be relatively low this year — only $3804. Monitor your use of cash in the short term.

- Projected cash flow: You are expected to have a cash surplus in each of the next few years. If you keep to your forecasted level of expenditures, you should not have any cash flow problems in the near future.

TAX PLANNING

- Federal taxes: Your federal income tax is estimated to be $9245 in 1987. This places you in the 35% tax bracket.

- State taxes: Your state taxes are estimated to be $3459 this year.

- IRA contributions: John is entitled to contribute up to $2000 to an Individual Retirement Account. This contribution may or may not be a tax deduction for you, but the earnings in your IRA will accumulate tax free. We suggest that you make the full $2000 contribution for this year.

EDUCATION FUNDING

- In order to pay for your children's educational expenses, $76,486 would have to be earmarked today from your current assets to establish an education fund.

  A better way to plan for your family's expenses is to make regular annual contributions to an education fund. We suggest beginning a savings program in 1987 with an initial contribution of $7519.

RETIREMENT PLANNING

- Retirement needs: Based on my estimates of your sources and uses of cash during retirement, you will need to save approximately $7230 annually beginning in 1992 in order to meet your retirement income goal of $40,000 per year.

- Retirement funding: You do not have adequate cash surplus in each of the next five years to make sufficient contributions to your retirement fund and an education fund. Therefore, we suggest you defer your retirement funding for six or seven years. At that time, we will evaluate your cash flow situation and determine your retirement funding requirements.

LIFE INSURANCE

- Needs of survivors: We recommend that you purchase at least $292,000 of additional life insurance coverage. However, even with this additional coverage your family may be forced to liquidate some of your assets. If you would prefer to provide them with sufficient income to eliminate the need to liquidate any assets, you should purchase a total of $342,000 of additional life insurance.

- Needs of survivors: We recommend that Elizabeth purchase at least $142,000 of additional life insurance coverage. However, even with this additional coverage your family may be forced to liquidate some of your assets.

ESTATE PLANNING

The following recommendations indicate what adjustments you should make in your estate:

- Credit Trust: Neither of you is using the full Unified Credit with the current structure of your will and property ownership. You can change your will to take advantage of this by transferring, at your death, only the property in excess of the exemption amount from your estate to your spouse's estate.

- Liabilities: At present, your liabilities (or debts) related to your investments are not onerous. If they increase significantly, bear in mind that a large amount of debt could deplete your estate, leaving less for your heirs.

YOUR FINANCIAL STATUS

OVERVIEW

This section examines your net worth, asset distribution and cash flow. It is the starting point for your entire financial plan. Your net worth is the difference between all your assets — including all your personal belongings and investments — and all your liabilities or debts. Your asset distribution indicates the type of assets in which you invest. Your cash flow is the accounting of all your sources of income and all your expenditures. This section shows exactly where your money is now, where it will come from, and how it will be used in the future.

Net Worth

Your net worth is the difference between your assets and your liabilities. It represents the part of your assets you own free and clear of any debt. Your current net worth is $177,729 and it is projected to be $250,974 in 1991.

Assets are grouped into three categories: liquid, investment and personal. Liabilities are debts, including any loans against major personal assets, investment loans, or any outstanding credit card balances.

Asset Distribution

Asset Distribution is the concept of distributing assets among various forms of investment types. The goal is to meet your investment objectives while remaining within the constraints of your risk tolerance.

Our analysis will focus on distributing your assets across six types of investments: liquid assets, stocks and bonds, real estate, passive investments, retirement plans, and other assets.

Cash Flow

Cash flow refers to the flow of money in and out of your accounts. Your cash flow consists of:

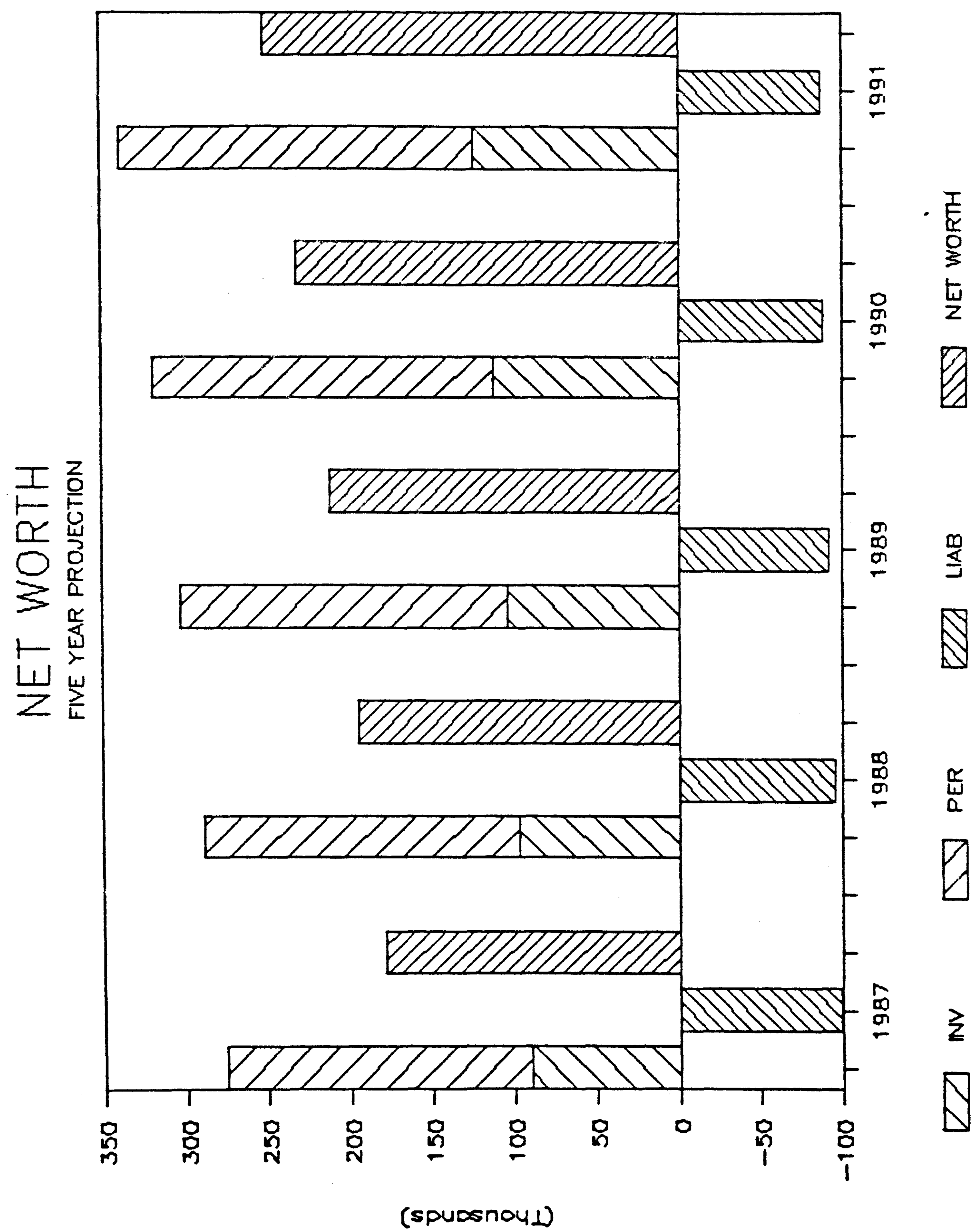
> Sources of Cash, the major components of which are generally employment and investment income.
>
> Uses of Cash, which include the purchase of necessities and personal enjoyment items, as well as the payment of taxes.

Surplus Cash is the difference between total sources and uses of cash. If this figure is negative, it is referred to as a deficit. Surplus cash is available for investments that satisfy long-term goals, such as education and retirement. This year, your net cash flow after expenses is estimated to be $3804.

The following schedules and graphs are an analysis of your net worth, asset distribution and cash flow.

PROJECTED NET WORTH

	1987	1988	1989	1990	1991
LIQUID ASSETS					
Cash/Checking Accts	3,000	3,000	3,000	3,000	3,000
Money Market Accounts	25,000	25,000	25,000	25,000	25,000
Other Liquid Assets	0	0	0	0	0
TOTAL LIQUID ASSETS	28,000	28,000	28,000	28,000	28,000
INVESTMENT ASSETS					
Bonds/Notes Recvble	9,000	9,450	9,923	10,419	10,940
Tax-free Bonds	12,000	12,600	13,230	13,892	14,586
Stocks and Options	22,000	24,750	27,844	31,324	35,240
Partnerships/S Corps	0	0	0	0	0
Real Estate	0	0	0	0	0
Personal Business	0	0	0	0	0
IRA/Keogh	8,860	9,303	9,768	10,257	10,769
Retirement Plans	8,000	8,560	9,159	9,800	10,486
Other Investments	0	0	0	0	0
Reinvested Cash Flow	2,408	3,960	5,627	8,171	13,554
TOTAL INVESTMENTS	62,268	68,623	75,551	83,863	95,575
PERSONAL ASSETS					
Residence	160,000	168,000	176,400	185,220	194,481
Automobiles	15,750	14,175	12,758	11,482	10,334
Other Personal Assets	10,000	10,000	10,000	10,000	10,000
TOTAL PERSONAL ASSETS	185,750	192,175	199,158	206,702	214,815
TOTAL ASSETS	276,018	288,798	302,709	318,565	338,390
LIABILITIES					
Mortgage(s)	90,175	89,584	88,931	88,211	87,415
Investment Loans	0	0	0	0	0
Automobile Loans	8,113	5,471	2,493	0	0
Credit/Charge Accts	0	0	0	0	0
Other Obligations	0	0	0	0	0
TOTAL LIABILITIES	98,288	95,055	91,424	88,211	87,415
NET WORTH (ASSETS - LIABILITIES)	177,730	193,743	211,285	230,354	250,975


NET WORTH
FIVE YEAR PROJECTION
(Thousands)
350
300
250
200
150
100
50
0
-50
-100
1987
1988
1989
1990
1991
INV
PER
LIAB
NET WORTH

ASSET DISTRIBUTION

CURRENT DISTRIBUTION

Category of Asset	Balance	% of Assets
Liquid Assets	28,000	31.0 %
Stocks and Bonds	43,000	47.6 %
Real Estate	0	0.0 %
Passive Investments	0	0.0 %
Retirement Plans	16,860	18.7 %
Other Investments	2,408	2.7 %
Total Investment Assets	90,268	100.0 %
Personal Assets	185,750	
Total Assets	276,018	

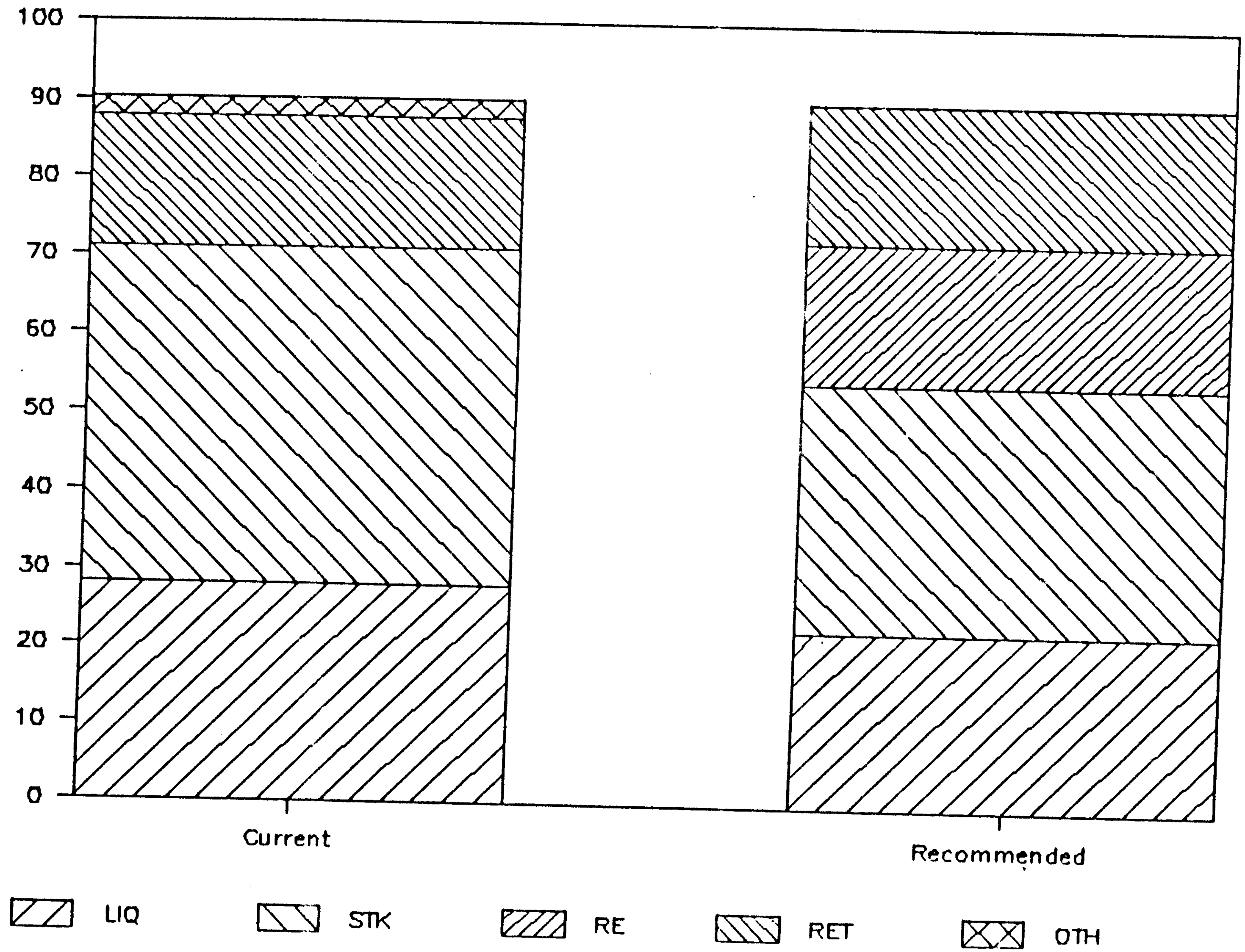
RECOMMENDED DISTRIBUTION

Category of Asset	Balance	% of Assets
Liquid Assets	22,567	25.0 %
Stocks and Bonds	31,594	35.0 %
Real Estate	18,054	20.0 %
Passive Investments	0	0.0 %
Retirement Plans	18,054	20.0 %
Other Investments	0	0.0 %
Total Investment Assets	90,268	100.0 %
Personal Assets	185,750	
Total Assets	276,018	

DIFFERENCES IN DISTRIBUTION

Category of Asset	Change in Balance	% of Portfolio
Liquid Assets	(5,433)	-6.0 %
Stocks and Bonds	(11,406)	-12.6 %
Real Estate	18,054	20.0 %
Passive Investments	0	0.0 %
Retirement Plans	1,194	1.3 %
Other Investments	(2,408)	-2.7 %
Total Investment Assets	0	0.0 %

ASSET DISTRIBUTION

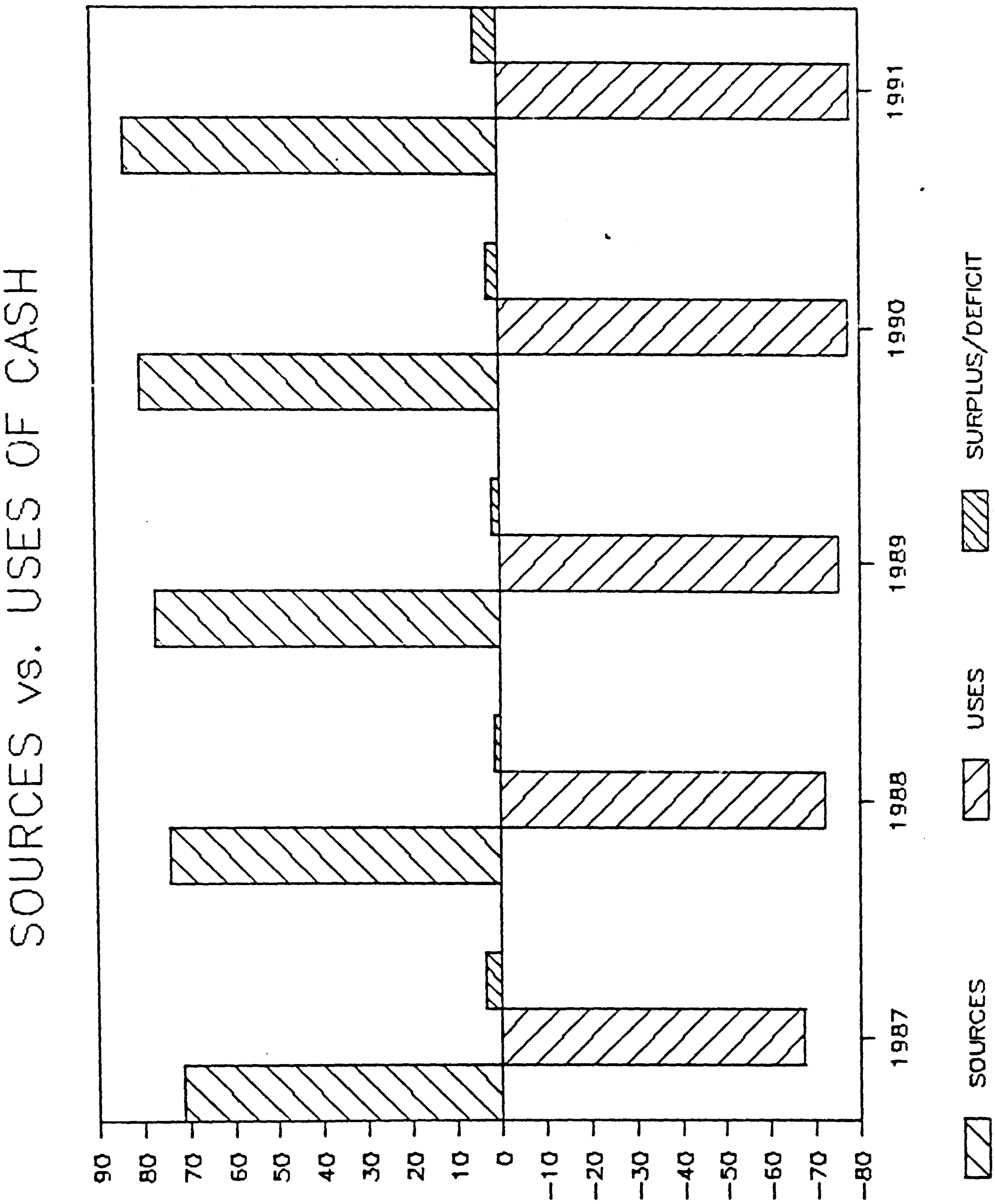


FIVE YEAR CASH FLOW SUMMARY

	1987	1988	1989	1990	1991
SOURCES OF CASH					
Employment	70,000	72,800	75,712	78,740	81,890
Business	0	0	0	0	0
Investments	760	892	978	1,069	1,209
Other Sources	450	0	0	0	0
Maturities/Sales	0	0	0	0	0
TOTAL CASH SOURCES	71,210	73,692	76,690	79,809	83,099
USES OF CASH					
Committed Expenses	38,084	39,231	40,435	40,847	39,560
Discretionary Exp	8,940	9,367	9,815	10,286	10,780
Investment Outlays	4,520	4,746	4,983	5,232	5,494
Federal Income Taxes	7,397	9,733	10,366	10,991	11,577
State Taxes	3,460	3,596	3,738	3,885	4,041
FICA Taxes	5,005	5,467	5,686	6,024	6,265
TOTAL CASH USES	67,405	72,141	75,023	77,265	77,717
SURPLUS/DEFICIT CASH	3,805	1,552	1,667	2,544	5,383
Payment of Projected Cash Flow Deficits	N/A	0	0	0	0
CASH AVAILABLE FOR INVESTMENT	3,805	1,552	1,667	2,544	5,383

LONG-TERM GOALS

	1987	1988	1989	1990	1991
Net Investment Outlay	4,520	4,746	4,983	5,232	5,494
Cash Avail for Invest	3,805	1,552	1,667	2,544	5,383
INVEST TOWARDS GOALS	8,325	6,298	6,650	7,776	10,877
Education Funding	7,519	7,519	7,519	7,519	7,519
Retirement Savings	0	0	0	0	0
TOTAL LONG-TERM NEEDS	7,519	7,519	7,519	7,519	7,519
RESOURCES IN EXCESS OF LONG-TERM NEEDS	805	(1,222)	(869)	257	3,357


SOURCES vs. USES OF CASH
90
80
70
60
50
40
30
20
10
0
-10
-20
-30
-40
-50
-60
-70
-80
(Thousands)
1987
1988
1989
1990
1991
SOURCES
USES
SURPLUS/DEFICIT

TAX PLANNING

OVERVIEW

Tax planning is essential for managing your money in the current tax environment. Taxes affect every phase of financial management and, for many, are an ever increasing expense. The overall financial planning effort emphasizes profitable ways to use your after-tax income. Tax planning focuses on increasing your after-tax income by minimizing taxes and freeing up cash. It prepares you mentally, as well as financially, for the traditionally traumatic experience of filing your April income tax return.

1986 was a significant year for tax "simplification". The Tax Reform Act of 1986 holds some major legislative changes, including the following:

- the 14 previous tax brackets, ranging from 11% to 50%, have been compressed into two: 15% and 28%,
- the gradual phase in of increased personal exemptions and the standard deduction,
- the elimination of the special tax treatment for long-term capital gains,
- the phase out of losses on limited partnerships and other passive investments,
- the introduction of additional limitations in deductions for contributions to individual retirement accounts,
- the elimination or gradual phase out of such popular deductions as sales taxes, interest on consumer loans, and other deductions.

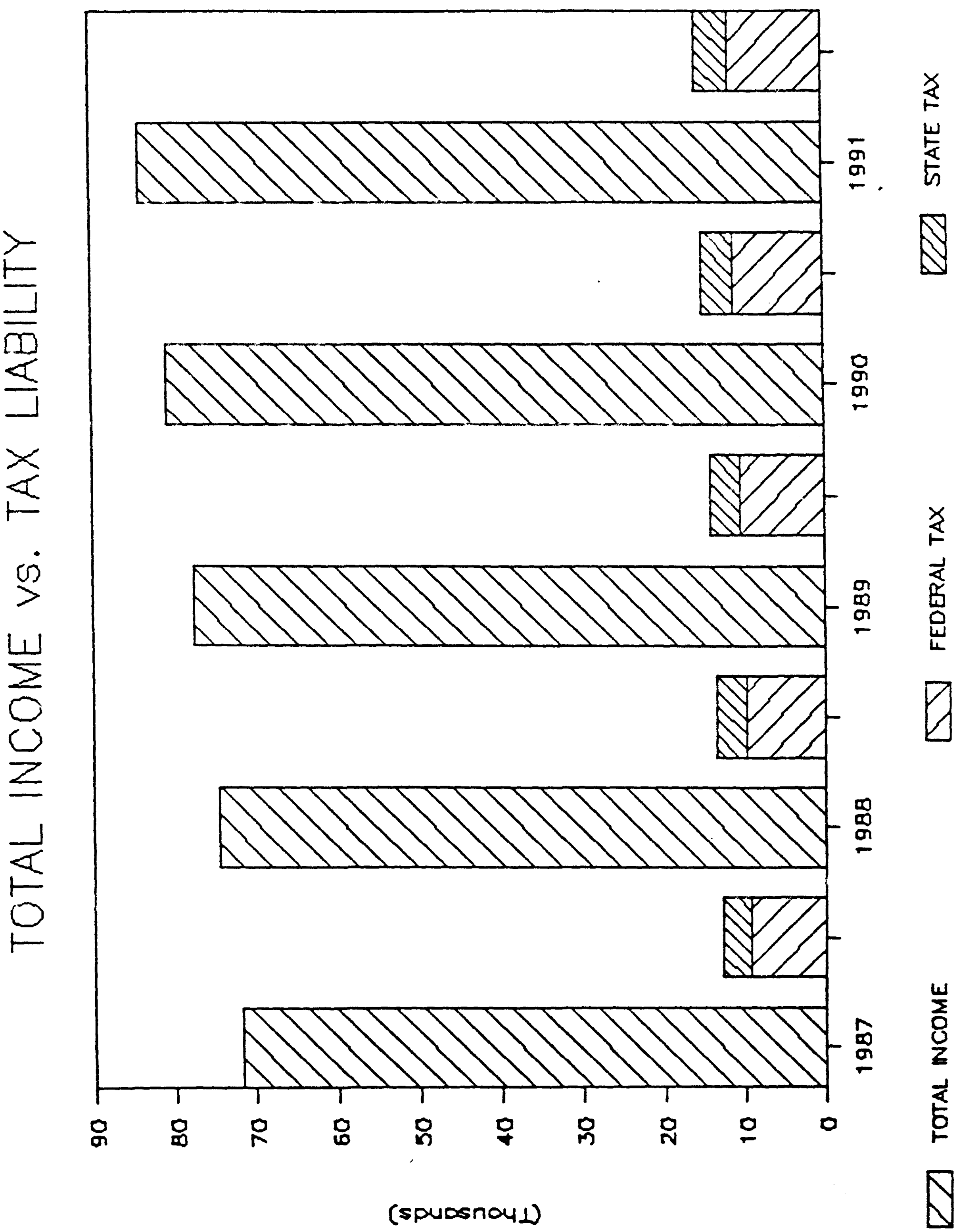
The following schedule entitled "Federal Income Tax Projection", is the cornerstone of tax analysis. It includes all the elements of the 1040 federal income tax form. Unlike the federal form this schedule projects your income and taxes for each of the next five years. This schedule should help you to see the ramifications of the tax overhaul, and help you prepare now for future tax liabilities.

The accompanying graph, "Five Year Total Income vs. Tax Liability", compares your total income with your federal and state tax liability.

FEDERAL INCOME TAX PROJECTION

	1987	1988	1989	1990	1991
Wages and Salaries	70,000	72,800	75,712	78,740	81,890
Interest/Dividends	1,660	1,792	1,878	1,969	2,109
Business Income(Loss)	0	0	0	0	0
Taxable Capital Gain	0	0	0	0	0
Sched E Income(Loss)	0	0	0	0	0
Social Security	0	0	0	0	0
Other Income	50	0	0	0	0
TOTAL INCOME	71,710	74,592	77,590	80,709	83,999
IRA/Keogh Contrib	(0)	(0)	(0)	(0)	(0)
Working Couple Ded	0	0	0	0	0
Alimony Paid	0	0	0	0	0
Other Adjustments	2,520	2,671	2,831	3,001	3,181
TOTAL ADJUSTMENTS	2,520	2,671	2,831	3,001	3,181
ADJUSTED GROSS INCOME	69,190	71,921	74,759	77,708	80,818
Medical/Dental	0	0	0	0	0
State/Local Taxes	3,460	3,596	3,738	3,885	4,041
Other Taxes	1,800	1,800	1,800	1,800	1,800
Interest Expense	9,771	9,315	9,021	8,868	8,780
Contributions	400	400	400	400	400
Casualty/Theft Loss	0	0	0	0	0
Misc Deductions	0	0	0	0	0
Standard Deduction	0	0	0	0	0
Exemptions	7,600	7,800	8,000	8,200	8,600
TOTAL DEDUCT/EXEMPT	23,030	22,911	22,959	23,154	23,621
TAXABLE INCOME	46,160	49,010	51,800	54,555	57,197
Tax Before Credits	9,246	9,855	10,493	11,115	11,693
Tax Credits	0	0	0	0	0
Fed Tax After Credits	9,246	9,855	10,493	11,115	11,693
Alternative Min Tax	0	0	0	0	0
Other Taxes	0	0	0	0	0
Federal Tax Liability	9,246	9,855	10,493	11,115	11,693
Withholdings/Payments	7,397	7,884	8,395	8,892	9,354
TAX DUE (REFUND)	1,849	1,971	2,099	2,223	2,339
Federal Tax Bracket*	35.0%	28.0%	28.0%	28.0%	28.0%

* After 1987, a 5% surtax may apply.


TOTAL INCOME vs. TAX LIABILITY
(Thousands)
0
10
20
30
40
50
60
70
80
90
1987
1988
1989
1990
1991
TOTAL INCOME
FEDERAL TAX
STATE TAX

EDUCATION FUNDING

OVERVIEW

Higher education is one of the most important investments that you can make for yourself and for your children. Today, education requires a substantial amount of financial resources.

Educational costs are beyond the reach of many families. An average private college costs more than $6000 for a single year's tuition alone. The total average annual cost exceeds $10,000, including room and board and other miscellaneous expenses. Further, in recent years the cost of both public and private institutions have historically increased at an annual rate in excess of 7%.

With such major costs involved, it is essential for you to plan a course of action to accumulate funds for education. This may involve earmarking savings as a child grows up, or gifting assets to your children.

You do not need to depend entirely on your own resources to pay for your children's education. Other methods of education funding to consider are various student loan programs, financial aid given by the college, and scholarship awards.

The schedule below, entitled "Education Planning Assumptions", shows the starting year and the number of years of education for each child, and their respective annual costs in today's dollars.

A second schedule follows, "Education Fund Accumulation", which shows the funding necessary to meet your children's education costs. The subsequent graph, "Annual Education Funding", depicts education funding and expenses.

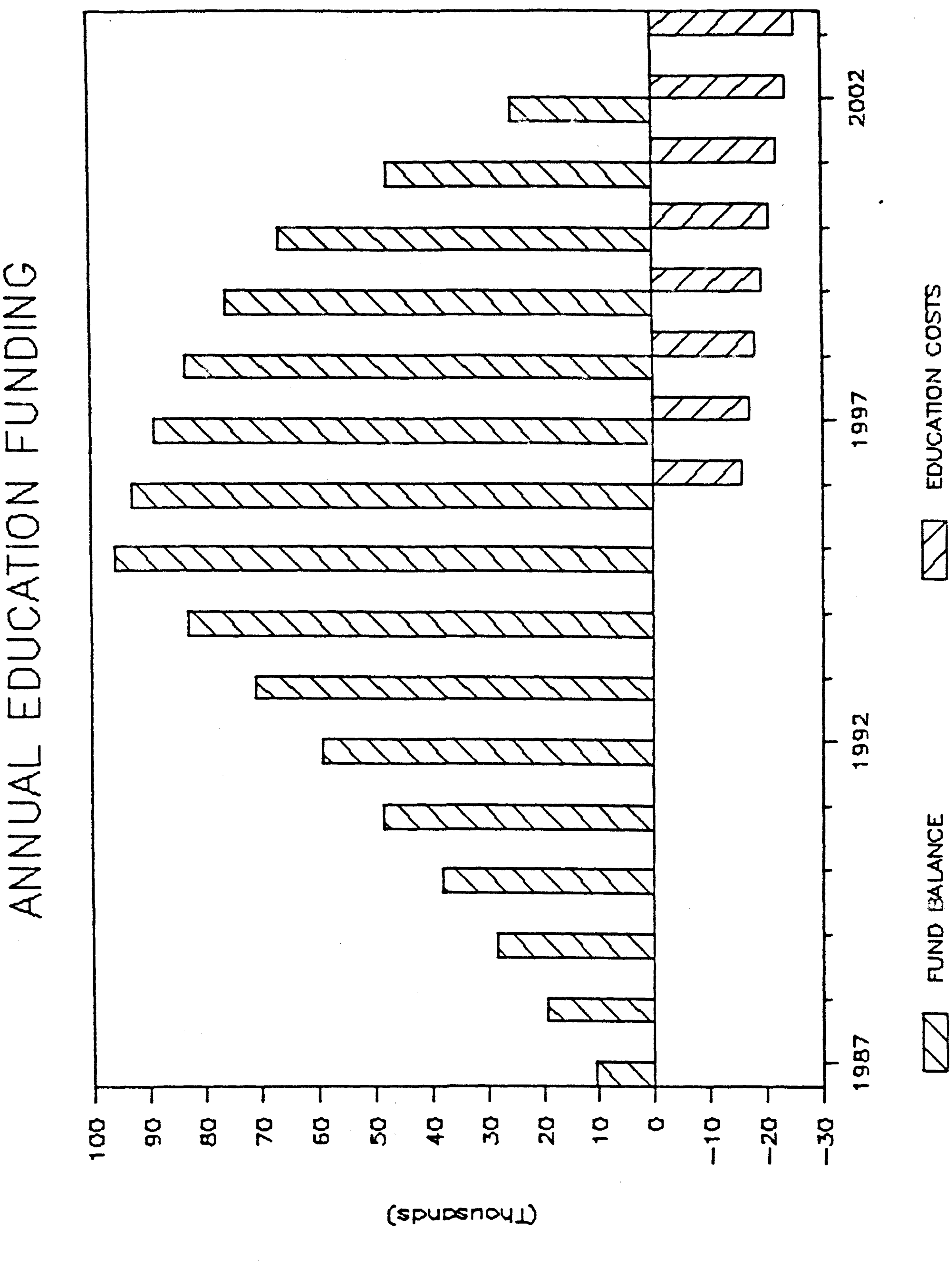
EDUCATION PLANNING ASSUMPTIONS

Child name	1st yr of education	Yrs of education	Annual costs
Betsy	1996	4	$ 8500
Mark	2000	4	8500

EDUCATION FUND ACCUMULATION

Starting Year of Funding	1987
Ending Year of Funding	2000
Amount Growth (Decline) per annum in Funding	0.00 %
Expected Rate of Return on Education Fund	6.00 %
Present Value of Education Needs	76,486
Earmarked Assets	2,400
Initial Payment	7,519

Year	Beginning balance	Funding	Education expenses	Interest	Ending balance
1987	2,400	7,519	0	595	10,515
1988	10,515	7,519	0	1,082	19,116
1989	19,116	7,519	0	1,598	28,234
1990	28,234	7,519	0	2,145	37,898
1991	37,898	7,519	0	2,725	48,143
1992	48,143	7,519	0	3,340	59,002
1993	59,002	7,519	0	3,991	70,512
1994	70,512	7,519	0	4,682	82,714
1995	82,714	7,519	0	5,414	95,647
1996	95,647	7,519	(15,627)	5,252	92,792
1997	92,792	7,519	(16,721)	5,015	88,606
1998	88,606	7,519	(17,891)	4,694	82,928
1999	82,928	7,519	(19,144)	4,278	75,582
2000	75,582	7,519	(20,484)	3,757	66,375
2001	66,375	0	(21,918)	2,667	47,125
2002	47,125	0	(23,452)	1,420	25,093
2003	25,093	0	(25,093)	(0)	(0)


ANNUAL EDUCATION FUNDING
(Thousands)
100
90
80
70
60
50
40
30
20
10
0
−10
−20
−30
1987
1992
1997
2002
FUND BALANCE
EDUCATION COSTS

OVERVIEW

Maintaining an adequate standard of living after your retirement is a key financial goal. However, few people plan adequately for this goal. According to the U.S. Department of Commerce, fewer than 5% of the households age 65 or older are financially independent. The other 95% must rely on some other source of income during their retirement years.

It is estimated that 45% of retirees are dependent on relatives for some or all of their support. Almost 30% of all Americans age 65 and over count on social security assistance to supplement their financial resources. Over 20% of all older Americans must continue some form of employment to maintain a reasonable standard of living.

In general, retirement income comes from three sources:

- Government programs (Social Security)
- Employer programs (pension plans, profit sharing)
- Private sources (IRAs, Keogh plans, and other assets)

Most individuals will receive benefits from each of these sources. Retirement planning ensures that each income source is utilized in proper balance to create an adequate stream of income throughout the retirement years.

Major legislative reforms in the last fifteen years have set new standards regarding retirement planning. In 1974, the Employee Retirement Income Security Act (ERISA) initiated major changes affecting private pension programs. In 1981, the Economic Recovery Tax Act (ERTA) made Individual Retirement Accounts (IRAs) available to all workers. In 1982, the Tax Equity and Financial Responsibility Act (TEFRA) liberalized the rules governing self employed retirement plans (Keogh plans), while establishing certain restrictions on corporate plans. And in 1986, the Tax Reform Act has established additional limitations on contributions to most retirement plans.

The following schedule, entitled "Retirement Planning", determines whether your current resources are adequate to achieve your desired retirement income level of $40,000 annually.

If you were to begin a regular funding program beginning in six or seven years, you would be able to meet your objective of $40,000 of income during your retirement years. During this period, you will draw on both the earnings from your assets and the principal.

Retirement Planning Schedule

This schedule compares your current situation with your stated needs during retirement, and shows how much additional funding you will require to meet your needs in two cases; with and without depleting your assets during retirement.

"Cash Flow During Retirement" shows how we calculate the annual surplus/deficit during retirement. Essentially, we add all possible sources of income during retirement (retirement benefits, Social Security, and any other income). These comprise the total "Projected Annual Income." Then we compare that amount to the amount of income you would like during retirement (your desired annual income). The result, "Annual Retirement Surplus/Deficit" shows whether you will meet your goal for income during retirement with available sources of income.

"Rate of Return (Adjusted for Inflation)" shows the yield your retirement assets will generate during retirement. Since inflation will affect the purchasing power of this fund, this percentage shows real return; that is, the actual return after it is adjusted to account for inflation.

"Capital Required to Meet Annual Need" is the total amount of assets that you would need in order to cover your expenses during retirement and preserve all your assets. This amount includes assets that you have indicated will be available for use during retirement and a special retirement fund.

"Available Assets at Retirement" is the value of current assets that you anticipate will be available for use during retirement.

"Amount Required to Live on Income Only" is the amount of additional assets you will need in the year you retire if you do not plan to deplete your assets during retirement.

"Amount Required with Depletion of Assets" is the amount of additional assets you will need in the year you retire if you plan to deplete your assets during retirement.

RETIREMENT PLANNING

Client retirement age	65	in	2017	
Life expectancy of	90	in	2042	

		Total
CASH FLOW DURING RETIREMENT		
Desired Annual Income		40,000
LESS:		
Annual Retirement Benefits	0	
Social Security Received	20,064	
Other Available Income	0	
Projected Annual Income		20,064
Annual Retirement Surplus/Deficit		(19,936)
Loss of Purchasing Power (Inflation)		(44,724)
FUTURE NEED AT RETIREMENT IN 2017		(64,660)
RATE OF RETURN (ADJUSTED FOR INFLATION)		1.9 %
Capital Required to Meet Annual Need		3,362,322
Less Available Assets at Retirement		459,798
AMOUNT REQUIRED TO LIVE ON INCOME ONLY		2,902,524
AMOUNT REQUIRED WITH DEPLETION OF ASSETS		814,070

Retirement Fund Accumulation

The following schedule shows how you can achieve your goal for retirement by contributing to a retirement fund beginning in 1992. This funding amount is calculated with the assumption that you will deplete assets in order to meet your retirement need.

The schedule also takes into account your intentions to complete your funding in 2017. The funding is based on a 7% rate of growth for the fund, and on a 5% annual change in the amount of your contribution to the fund. A change to any of these factors can affect your retirement planning significantly.

FUND ACCUMULATION BEFORE RETIREMENT

Year of Retirement	2017
Starting Year of Funding	1992
Ending Year of Funding	2017
Amount Growth (Decline) per annum in Funding	5.00 %
Expected Rate of Return on Retirement Fund	7.00 %
Initial Payment	7,231

Year	Beginning balance	Funding	Fund apprec	Ending balance
1987	0	0	0	0
1988	0	0	0	0
1989	0	0	0	0
1990	0	0	0	0
1991	0	0	0	0
1992	0	7,231	506	7,737
1993	7,737	7,592	1,073	16,402
1994	16,402	7,972	1,706	26,080
1995	26,080	8,371	2,412	36,862
1996	36,862	8,789	3,196	48,847
1997	48,847	9,228	4,065	62,141
1998	62,141	9,690	5,028	76,859
1999	76,859	10,174	6,092	93,126
2000	93,126	10,683	7,267	111,076
2001	111,076	11,217	8,561	130,853
2002	130,853	11,778	9,984	152,616
2003	152,616	12,367	11,549	176,532
2004	176,532	12,985	13,266	202,783
2005	202,783	13,635	15,149	231,567
2006	231,567	14,316	17,212	263,095
2007	263,095	15,032	19,469	297,597
2008	297,597	15,784	21,937	335,317
2009	335,317	16,573	24,632	376,523
2010	376,523	17,402	27,575	421,499
2011	421,499	18,272	30,784	470,555
2012	470,555	19,185	34,282	524,022
2013	524,022	20,145	38,092	582,258
2014	582,258	21,152	42,239	645,649
2015	645,649	22,209	46,750	714,609
2016	714,609	23,320	51,655	789,584
2017	789,584	24,486	0	814,070

OVERVIEW

The objective of risk management is to minimize financial loss in the event of death or disability by maximizing the use of available resources, by developing alternative income sources, and by having the proper amount and type of insurance coverage.

Life insurance plays an important role in personal financial planning, since a premature death can place great financial burden on families with inadequate coverage. Premature death can devastate not only a family heavily dependent on a breadwinner, but also a family with outstanding liabilities, such as a home mortgage. It is essential that you consider life insurance to cover these critical costs.

Disability, the inability to work for prolonged periods, can easily result in financial and emotional scars. The effects may remain long after a disabled person recovers. Protection against this particular exposure frequently goes neglected without proper advice, yet the exposure is one that should be dealt with. Very few wage earners have any form of disability insurance protection, and many who do are insufficiently covered.

The following Life Insurance schedules illustrate the total amount of insurance needs for both you and Elizabeth, accounting for immediate needs, resources and objectives.

The schedules, "Cash Flow in the Event of Disability" show whether you have sufficient resources to meet your total expenditures in the event that you or Elizabeth become disabled.

Life Insurance Schedules

These schedules illustrate the family's financial situation upon the premature death of you John, or Elizabeth. They show how much additional funding the family will need to meet its stated goal for income in two cases: with and without depleting the family's assets to cover living expenses.

"Annual Needs of Survivors" shows how we calculate the annual surplus/deficit. Essentially, we add all possible sources of income to survivors. These comprise the total "Projected Annual Income." Then we compare that amount to the amount of income that you would like for survivors (your "Desired Annual Income"). As we noted, the result, shown in "Annual Survivor Surplus/Deficit," illustrates how well your current plans will meet your goal.

"Rate of Return (Adjusted for Inflation)" shows the amount your assets will earn. Since inflation will affect the purchasing power of this fund, this percentage shows the real growth; that is, the actual return after it is adjusted to account for inflation.

"Capital Required to Meet Annual Needs" is the total amount of assets that survivors will need in order to maintain your current assets. This amount includes assets that you have indicated will be available to survivors, and a special retirement fund.

"Total Immediate Cash Needs" is the total of the expenses that will occur immediately upon premature death. These include "Final Expenses," which are expenses of settling the estate, "Estate Taxes," "Liabilities Paid Off," an "Emergency Fund," that will tide the survivors over until insurance and other income begins to come in.

"Total Needs of Survivors" sums the "Capital Required to Meet Annual Needs" and the "Total Immediate Cash Needs." Therefore, this amount represents the total needs of the survivors for capital.

"Available Resources" are assets that will be available to survivors, including proceeds from insurance policies, retirement plans, and any other assets.

Note that "Amount Required to Live on Income Only" is the "Total Needs of Survivors" minus "Total Available Resources." Therefore, this amount represents a shortfall that should be met with additional life insurance if your assets are to be preserved.

"Amount Required to Live with Depletion of Assets" is the amount of life insurance you will need if your survivors deplete assets to cover expenses.

JOHN'S LIFE INSURANCE ANALYSIS		Total
ANNUAL NEEDS OF SURVIVORS		
Desired Annual Income		45,000
LESS		
Elizabeth's Salary/Business Income	28,000	
Social Security Received	9,480	
Other Available Income	0	
Projected Annual Income		37,480
ANNUAL SURVIVOR SURPLUS/DEFICIT		(7,520)
RATE OF RETURN (ADJUSTED FOR INFLATION)		2.9 %
CAPITAL REQ'D TO MEET ANNUAL NEEDS		260,692
PLUS IMMEDIATE CASH NEEDS		
Final Expenses	16,018	
Estate Taxes	0	
Liabilities Paid Off	126,586	
Emergency Fund	10,000	
Total Immediate Cash Needs		152,604
TOTAL NEEDS OF SURVIVORS		413,296
LESS AVAILABLE RESOURCES		
Insurance Proceeds	63,000	
Retirement Plans	0	
Other Investments	8,000	
Total Available Resources		71,000
AMOUNT REQUIRED TO LIVE ON INCOME ONLY		342,296
AMOUNT REQUIRED WITH DEPLETION OF ASSETS		292,201

ELIZABETH'S LIFE INSURANCE ANALYSIS		Total
ANNUAL NEEDS OF SURVIVORS		
Desired Annual Income		50,000
LESS		
John's Salary/Business Income	42,000	
Social Security Received	9,480	
Other Available Income	0	
Projected Annual Income		51,480
ANNUAL SURVIVOR SURPLUS/DEFICIT		1,480
RATE OF RETURN (ADJUSTED FOR INFLATION)		2.9 %
CAPITAL REQ'D TO MEET ANNUAL NEEDS		0
PLUS IMMEDIATE CASH NEEDS		
Final Expenses	14,157	
Estate Taxes	0	
Liabilities Paid Off	126,586	
Emergency Fund	10,000	
Total Immediate Cash Needs		150,743
TOTAL NEEDS OF SURVIVORS		150,743
LESS AVAILABLE RESOURCES		
Insurance Proceeds	0	
Retirement Plans	0	
Other Investments	8,860	
Total Available Resources		8,860
AMOUNT REQUIRED TO LIVE ON INCOME ONLY		141,883
AMOUNT REQUIRED WITH DEPLETION OF ASSETS		141,883

CASH FLOW IN EVENT OF JOHN'S DISABILITY

	1987	1988	1989	1990	1991
CASH SOURCES AND USES					
Elizabeth's Salary	28,000	29,120	30,285	31,496	32,756
Disability Insurance	7,500	15,600	16,224	16,873	17,548
Social Security Ben	8,064	8,387	8,722	9,071	9,434
Pension Plan Benefits	0	0	0	0	0
Taxable Interest/Div	1,660	1,726	1,795	1,867	1,942
Other Income	0	0	0	0	0
TOTAL SOURCES	45,224	54,833	57,026	59,307	61,680
Mortgage Payments	9,060	9,060	9,060	9,060	9,060
Other Housing Costs	1,800	1,872	1,947	2,025	2,106
Food, Clothing, Trans	10,000	10,400	10,816	11,249	11,699
Other Committed Exp	15,000	15,600	16,224	16,873	17,548
Discretionary Exp	7,000	7,280	7,571	7,874	8,189
Tax Expenditures	14,472	17,547	18,248	18,978	19,737
TOTAL USES	57,332	61,759	63,866	66,059	68,339
TOTAL SURPLUS/DEFICIT	(12,108)	(6,926)	(6,840)	(6,751)	(6,659)
LONG-TERM GOALS					
Education Funding	7,519	7,519	7,519	7,519	7,519
Retirement Funding	0	0	0	0	0
TOTAL LONG-TERM NEEDS	7,519	7,519	7,519	7,519	7,519
EXCESS OF SURPLUS					
Surplus After goals	(19,627)	(14,445)	(14,360)	(14,271)	(14,178)

CASH FLOW IN EVENT OF ELIZABETH'S DISABILITY

	1987	1988	1989	1990	1991
CASH SOURCES AND USES					
John's Salary	42,000	43,680	45,427	47,244	49,134
Disability Insurance	3,000	6,240	6,490	6,749	7,019
Social Security Ben	8,064	8,387	8,722	9,071	9,434
Pension Plan Benefits	0	0	0	0	0
Taxable Interest/Div	1,660	1,726	1,795	1,867	1,942
Other Income	0	0	0	0	0
TOTAL SOURCES	54,724	60,033	62,434	64,932	67,529
Mortgage Payments	9,060	9,060	9,060	9,060	9,060
Other Housing Costs	1,800	1,872	1,947	2,025	2,106
Food, Clothing, Trans	10,000	10,400	10,816	11,249	11,699
Other Committed Exp	15,000	15,600	16,224	16,873	17,548
Discretionary Exp	7,000	7,280	7,571	7,874	8,189
Tax Expenditures	17,512	19,211	19,979	20,778	21,609
TOTAL USES	60,372	63,423	65,597	67,859	70,210
TOTAL SURPLUS/DEFICIT	(5,648)	(3,390)	(3,163)	(2,927)	(2,682)
LONG-TERM GOALS					
Education Funding	7,519	7,519	7,519	7,519	7,519
Retirement Funding	0	0	0	0	0
TOTAL LONG-TERM NEEDS	7,519	7,519	7,519	7,519	7,519
EXCESS OF SURPLUS VS. LONG-TERM NEEDS	(13,167)	(10,909)	(10,682)	(10,446)	(10,201)

ESTATE PLANNING

OVERVIEW

Estate planning ensures that your wealth and property transfer smoothly, with a minimum of depletion, to your heirs. Planning can serve to minimize estate and inheritance taxes, and can help to avoid aggravating delays in the administrative process that settles your estate.

The first step in estate planning is to determine your gross estate, which is comprised of your total assets, including retirement benefits and life insurance. Since each individual's estate is taxed independently, ownership of property must be taken into account. There are three kinds of property ownership:

Separately owned: In general, property owned by an individual -- also known as "outright ownership".

Joint: A form of ownership involving two or more individuals. Joint property ownership may be: joint tenancy, tenancy by the entirety, or tenancy in common.

Community: Property is divided equally between husband and wife. The application of this type of ownership varies from state to state: some states are community property states, some are not.

I have estimated John's gross estate at $200,593, and Elizabeth's gross estate to be $138,561. These values are presented as of 1987, which is the assumed year of death for this illustration.

Before arriving at your taxable estate, funeral expenses, debts and obligations of the estate, and similar costs and fees are allowed as deductions. Furthermore, charitable bequests and property given to a spouse (termed the "marital deduction") are subtracted. Finally, an adjustment is made for past gifts on which gift taxes were previously paid. This nets your taxable estate.

The objective of estate planning is to minimize the shrinkage of this estate, in other words, maximize the remainder that is passed on to heirs. This can be achieved through the proper utilization of wills and trusts.

Currently, both of you have the following type of will:

Simple Will. In this will, everything goes to your spouse, excluding minor bequests.

The following schedules illustrate the transfer of property to your heirs.

ESTATE DISTRIBUTION FLOWCHART
(John Predeceases Elizabeth in 1987)

```
                              ...........................
                              : Gross Estate - John     :
                              :        $200,593         :
                              :.........................:
                                          |
                              ............|..............
                              : Debts, Expenses & Taxes :
                              :        $66,117          :  33.0%
                              :.........................:
                                          |
                              ............V..............
                              :       Remainder         :
                              :       $134,476          :  67.0%
                              :.........................:
                                          |
                 ______________________________________________
            ............|......................        ............|...........
            :To Elizabeth            $134,475 :        :  To Heirs & Trust   :
            :                                 :        :          $          :
            :.................................:        :.....................:
                        |                                          |
            ............|......................                    |
            :Elizabeth's Assets      $138,561 :                    |
            :.................................:                    |
                        |                                          |
            ............|......................                    |
            :Gross Estate - 1987     $273,036 :                    |
            :.................................:                    |
                        |                                          |
            ............|......................                    |
            :Debts, Exp & Taxes       $68,290 : 25.0%              |
            :.................................:                    |
                        |                                          |
            ............V......................      ..............V............
            :Remainder               $204,746 : 75.0%  :     Total Amount        :
            :.................................:------->:   To Heirs & Trust      :
                                                     :       $204,746          :
                                                     :.........................:
```

ESTATE DISTRIBUTION FLOWCHART
(Elizabeth Predeceases John in 1987)

```
                          ...........................
                          : Gross Estate - Elizabeth :
                          :         $138,561         :
                          :..........................:
                                       |
                          .............|.............
                          : Debts, Expenses & Taxes  :
                          :         $64,256          :  46.4%
                          :..........................:
                                       |
                          .............V.............
                          :        Remainder         :
                          :         $74,305          :  53.6%
                          :..........................:
                                       |
                 ------------------------------------------
 ...........|....................           ...........|..........
 :To John               $74,304 :           :  To Heirs & Trust   :
 :Less unpaid liab     ($4,852):            :          $          :
 :..............................:           :.....................:
            |                                          |
 ...........|....................                      |
 :John's Assets        $200,593 :                      |
 :..............................:                      |
            |                                          |
 ...........|....................                      |
 :Gross Estate - 1987  $270,045 :                      |
 :..............................:                      |
            |                                          |
 ...........|....................                      |
 :Debts, Exp & Taxes    $63,348 : 23.5%                |
 :..............................:                      |
            |                                          |
 ...........V....................          ............V............
 :Remainder            $206,697 : 76.5%   :     Total Amount        :
 :..............................:-------->:   To Heirs & Trust      :
                                          :       $206,697          :
                                          :.........................:
```

EXPOSURE DRAFT

PROPOSED STATEMENT ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE

DEVELOPING A BASIS FOR RECOMMENDATIONS

August 15, 1995
Comment Date: October 16, 1995

Name & affiliation: Ronald J. Linder, Delagnes, Mitchell & Linder.

Comments:

Items 8 through 10: These paragraphs read as if it is clear what is "sufficient relevant" information. It is submitted that these are standards applicable to the past. As to the future it is more appropriate to focus on considering those factors that are likely to impact the results of current decisions. These factors are normally not "information," they are assumptions.

When dealing with the past, "information" can be obtained and usually the relevance is easier to determine. In dealing with the future, there is no "information"; however, professional do have some notion of factors that should be considered. Why not address this reality. Note that the excerpts from Chapter 6 on page 11 deal with the future in a more realistic way than items 8 through 10; there is a clear recognition that it is assumptions not "information" that is the most significant item in dealing with the future.

Item 13: Would anyone hire a financial planner who did not consider the impact of alternate events in the future? How is this expressed in these four items? The items suggest that if you have the "right, consistent assumption," the client will be well served. Chaos theory suggests that consistent, known relationships will rarely occur in nature and in the conduct of human affairs on a regular, recurring basis. It was illogical in the view of most that we would have the stagflation of the early 1980's, yet it happened. Those who anticipated Congressional changes in the tax law relating to real estate in the early 1980's are the ones who did their clients the most good, not those that made what was considered to be the best assumption.

Item 17: I would change the word "consistent" to "compatible". Clients typically have conflicting goals (spend it now, save for retirement & leave it to the children), the art of estate financial planning is reconciling these conflicts, not eliminating them.

Item 19: Isn't there a responsibility on the part of the CPA to share with the client the likely impacts that are of concern to the CPA?

HD VEST
FINANCIAL SERVICES

HERB D. VEST
CHAIRMAN OF THE BOARD

The Financial Services Firm of Tax Professionals
433 East Las Colinas Blvd., Third Floor, Irving, Texas 75039
1 (800) 821-8254 FAX 214/556-1724 214/556-1651

October 4, 1995

Susan Frohlich
Technical Manager
PFP Division, AICPA
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881

Dear Ms. Frohlich:

Thank you for the opportunity to comment on the exposure draft: *Proposed Statement on Responsibilities in Personal Financial Planning*. We believe this statement expresses suitable guidelines for CPAs engaged in personal financial planning.

Yours Respectfully,

Herb D. Vest, CPA/PFS

CERTIFIED
FINANCIAL
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BOARD OF STANDARDS

1660 Lincoln Street
Suite 3050
Denver, Colorado 80264-3001
303 830-7543
Fax 303 860-7388

October 9, 1995

Susan Frohlich, Technical Manager
AICPA PFP Division
Harborside Financial Center
201 Plaza III
Jersey City, NJ 07311-3881

Dear Ms. Frohlich:

The Post-Certification Committee and the Board of Practice Standards of the Certified Financial Planner Board of Standards, Inc. (CFP Board) are pleased to submit the following comments on the exposure draft of the proposed Statement on Responsibilities in Personal Financial Planning Practice entitled *Developing a Basis for Recommendations*

1) In item # 4 (a), the exposure draft indicates that developing a basis for recommendations involves collecting relevant quantitative and qualitative information, including, but not limited to: (1) the client's goals, existing financial situation, and available resources; (2) nonfinancial factors such as client attitudes, risk tolerance, family considerations, age, health, and life expectancy....... We believe that conspicuously absent from the list of qualitative information is particular temporary or permanent client needs (e.g. handicapped, obligated to make significant child support or alimony payments, etc.); the client's goal priorities (assuming limited resources are available to accomplish goals); even more fundamental than the client's attitudes are the client's personal values which generally drive their attitudes; the time horizon for each defined goal; and, finally, the client's expectations.

2) We do not believe it is appropriate for the personal financial planning practitioner to "collect"information about the client's goals. In the exposure draft of the CFP Board's first practice standard entitled *GATHERING CLIENT DATA: Determining a Client's Personal and Financial Goals, Needs, and Priorities*, (copy enclosed) the personal financial planning practitioner is charged with mutually-defining with the client the client's personal and financial goals, needs, and priorities prior to making and/or implementing recommendations. "Mutually-defined" is defined in the proposed practice standard as denoting an understanding and acknowledgement on the part of the personal financial planning practitioner and the client as to the client's goals, objectives, needs and priorities. If there is not a mutual definition of the goals, we believe it may result in a diminished ability to accomplish the goals. We believe that this language or something comparable should be added to your proposed SRPFPP.

3) In Item # 7, the exposure draft characterizes a client's goals as being measurable. We agree that this is an important characteristic. In addition, we believe that goals

should be clear, precise, consistent, integrated, and comprehensive. We suggest you consider adding these additional characteristics of well-defined goals.

4) In Item # 16, the exposure draft states that if the CPA determines that the client's goals cannot reasonably be achieved, the CPA should communicate to the client the need to reconsider the originally stated goals. We agree with this statement but we have expressed it differently in the exposure draft of our first practice standard. We state there that a practitioner must help clients recognize the implications of unrealistic goals and objectives. You may want to consider language similar to that which was used in our exposure draft.

5) In Item # 13(a), in the second line, it may improve clarity to insert "short-term" directly in front of the word "investments".

Thank you for providing us the opportunity to offer comments on this exposure draft. Similarly, we would appreciate your comments on our first practice standard exposure draft.

Sincerely,

Jeffrey B. Mershon

Jeffrey B. Mershon CPA/PFS, CFP
Director of Post-Certification

Enclosure: Exposure Draft of CFP Board's Proposed Practice Standard entitled *GATHERING CLIENT DATA: Determining a Client's Personal and Financial Goals, Needs, and Priorities*

cc: Post-Certification Committee members
Board of Practice Standards members

EXPOSURE DRAFT

PROPOSED PRACTICE STANDARD

GATHERING CLIENT DATA:
Determining a Client's Personal and Financial Goals, Needs, and Priorities

OCTOBER 1, 1995

Prepared by the Board of Practice Standards of
the Certified Financial Planner Board of Standards, Inc.
(CFP Board)

Comments should be received by December 31, 1995,
and addressed to Jeffrey B. Mershon, CPA, CFP
Director of Post-Certification
CFP Board of Standards, 1660 Lincoln Street, Suite 3050,
Denver, CO 80264-3001

attachment to Response #14

This exposure draft has been sent to -

- A random sample of Certified Financial Planner licensees
- Members of the Board of Governors of the CFP Board
- Members of the CFP Board's Board of Examiners, Board of Ethics and Professional Review, and various CFP Board task force members
- State Securities Administrators, State Insurance Commissioners, and State Attorneys General
- Director of Investment Management, Securities and Exchange Commission (for information only)
- Educational institutions whose CFP educational programs are registered with the CFP Board
- Organizations identified by the CFP Board as having an interest in personal financial planning principles
- Continuing education sponsors registered with the CFP Board
- Persons who have requested copies

Any individual or organization may obtain one copy of this document without charge until the end of the comment period by writing to the CFP Board of Standards, 1660 Lincoln Street, Suite 3050, Denver, CO 80264-3001.

FINANCIAL
PLANNER
BOARD OF STANDARDS

1660 Lincoln Street
Suite 3050
Denver, Colorado 80264-3001
303 830-7543
Fax 303 860-7388

October 1, 1995

Accompanying this letter is an exposure draft of Proposed Practice Standard No. 200-1, *GATHERING CLIENT DATA: Determining a Client's Personal and Financial Goals, Needs, and Priorities.*

The purpose of this exposure draft is to solicit comments from CFP licensees and other interested parties before the CFP Board of Standards takes any final action. Comments or suggestions on any aspect of the exposure draft would be appreciated. Please refer to specific paragraphs and include supporting reasons for any suggestions or comments.

Comments on the exposure draft should be sent to Jeffrey B. Mershon, CPA, CFP, Director of Post-Certification, CFP Board of Standards, 1660 Lincoln Street, Suite 3050, Denver, CO 80264-3001 in time to be received by December 31,1995. For your convenience, a response form is included with the exposure draft.

Written comments on the exposure draft will become part of the public record of the CFP Board's Board of Practice Standards and will be available for public inspection at the CFP Board's offices for one year after January 31, 1996.

Sincerely,

S. Timothy Kochis

S. Timothy Kochis, J.D., CFP
President
CFP Board of Standards

James L Budros

James L. Budros, CFP
Chair
Board of Practice Standards

Certified Financial Planner Board of Standards, Inc.
Board of Practice Standards
1995

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CFP Board Staff Liaison

Jeffrey B. Mershon, CPA, CFP
Director of Post-Certification

STATEMENT OF PURPOSE FOR PRACTICE STANDARDS

Practice standards are being developed and promulgated by the Certified Financial Planner Board of Standards, Inc. (CFP Board) for the practice of personal financial planning. These standards: (1) assure the public that individuals offering financial planning advice are subscribing to uniform standards of practice; (2) advance the professionalism of financial planning; and (3) establish the credibility and acceptance of the personal financial planning practitioner (practitioner).

Origin of Practice Standards

The CFP Board is a professional regulatory organization founded in 1985 to benefit and protect the public by establishing and enforcing education, examination, experience, and ethics requirements for Certified Financial Planner designees. Through its certification process, the CFP Board has established fundamental criteria necessary for competency in the personal financial planning profession. Through its *Code of Ethics and Professional Responsibility*, the Board has identified the ethics standards to which personal financial planning professionals should adhere. Now, consistent with its objective to promote and maintain professional standards and continuing competency among CFP designees, the CFP Board addresses the standards of practice that are common to all practitioners. The CFP Board has established the Board of Practice Standards, a subsidiary board, to draft these practice standards.

Practice Standards Defined

A practice standard establishes the minimum acceptable level of professional practice that is expected of persons engaged in the profession of personal financial planning and, thereby, offers the public a benchmark for evaluating financial planning services. It is a basic operating procedure, a minimum level of performance below which no practitioner should fall. Practice standards are concerned with what a practitioner <u>does</u> in the practice of personal financial planning–not with that person's title, job position, type of employment, or method of compensation. They will apply to all practitioners when performing the financial planning task or activity addressed by the standard but will be enforceable by the CFP Board only against CFP designees.

Practice standards are based on a financial planner job analysis first conducted by the CFP Board in 1987 and updated in 1994 by CTB/McGraw-Hill, an independent consulting firm. The personal financial planning process was defined in that job analysis as consisting of the following general activities:

I. Establishing client-planner relationship.
II. Gathering client data.
III. Analyzing and evaluating client financial status.
IV. Developing and presenting the financial plan.
V. Implementing the financial plan.
VI. Monitoring the financial plan.

Each general activity is composed of several tasks. In this analysis, practitioners identified and ranked by importance the tasks comprising these general activities. Practice standards are being developed in the order of importance that was established by the job analysis for these tasks.

Compliance

Compliance is mandatory for CFP designees and will be enforced by the CFP Board.

The CFP Board anticipates that these practice standards will become generally accepted within the personal financial planning profession.

PROPOSED PRACTICE STANDARD

GATHERING CLIENT DATA

Determining A Client's Personal And Financial Goals, Needs, and Priorities

A client's personal and financial goals, needs, and priorities shall be mutually-defined by the personal financial planning practitioner and the client prior to making and/or implementing recommendations.

EXPLANATION OF THIS PRACTICE STANDARD AND EFFECTIVE DATE

Prior to making recommendations to a client, a personal financial planning practitioner (practitioner) and the client shall define the client's personal and financial goals, needs and priorities. In order to arrive at such a definition, the practitioner will need to explore the client's values, attitudes, expectations, and time horizons. This definition is essential in determining what activities may be necessary to proceed with the client engagement. Personal values and attitudes shape a client's goals and objectives and the priority placed on them. Accordingly, these goals and objectives must be consistent with the client's values and attitudes in order for the client to make the necessary commitment to accomplish them.

Goals and objectives provide focus, purpose, vision, and direction. It is essential that objectives are clear, precise, consistent, measurable, and comprehensive. The role of the personal financial planning professional is to facilitate the goal-setting process in order to clarify, with the client, goals and objectives. At the same time, a practitioner must help clients recognize the implications of unrealistic goals and objectives.

This practice standard addresses only the tasks of determining client's personal and financial goals, needs and priorities; assessing client's values, attitudes and expectations; and determining client's time horizons. The additional tasks identified in the financial planner job analysis which, together with these tasks, constitute "gathering client data" will be the subject of additional practice standards. A practitioner performing the activity of gathering client data should consider together any practice standards applicable to this activity.

Effective Date

This practice standard shall be effective ______________________

TERMINOLOGY IN THIS PRACTICE STANDARD

"Client" denotes a person, persons, or entity for whom professional services are rendered with or without compensation or a formal relationship.

"Goal" denotes a broad, relatively open-ended statement of what a client wants to achieve.

"Mutually-defined" denotes an understanding and acknowledgement on the part of the personal financial planning professional and the client as to the client's goals, objectives, needs and priorities.

"Objective" denotes an end that is more specific than a goal, the achievement of which is expected within a definite period of time.

"Personal financial planning" or **"financial planning"** denotes the process of determining whether and how an individual can meet life goals through the proper management of financial resources.

"Personal financial planning process" or **"financial planning process"** denotes the process which typically includes, but is not limited to, the six elements of data gathering, goal setting, identification of financial issues, preparation of alternatives and recommendations, implementation of client decisions from among the alternatives, and periodic review and revision of the plan.

"Personal financial planning subject areas" or **"financial planning subject areas"** denotes the basic subject fields covered in the financial planning process which typically include, but are not limited to, financial statement preparation and analysis (including cash flow analysis/planning and budgeting), investment planning (including portfolio design, i.e., asset allocation, and portfolio management), income tax planning, education planning, risk management, retirement planning and estate planning.

"Personal financial planning practitioner" or **"financial planning practitioner"** denotes a person who is capable and qualified to offer objective, integrated, and comprehensive financial advice to or for the benefit of clients to help them achieve their financial objectives and who engages in financial planning using the financial planning process in working with clients.

Note: CFP licensees who self-declare themselves to the CFP Board of Standards to be personal financial planning practitioners so that they can be listed as such in the CFP Board's Directory of CFP Practitioners, are required additionally to perform currently and routinely at least two of seven specific activities in working with clients for compensation. The seven activities are:

- Personal financial statement preparation and analysis (including cash flow analysis, planning and management)
- Investment planning (including, but not limited to, portfolio design, asset allocation, and portfolio management)
- Estate planning
- Income tax planning
- Education planning
- Insurance planning and risk management
- Retirement planning

CFP licensees who meet the definition of a personal financial planning practitioner in this practice standard and who perform activities or tasks covered by practice standards promulgated by the CFP Board, are subject to the applicable practice standard(s) regardless of their inclusion or exclusion in the CFP Board's Directory of CFP Practitioners.

TERMINOLOGY IN THIS PRACTICE STANDARD (continued)

"Time Horizon" denotes a period of time during which a client expects to accomplish his or her goal(s) or objective(s) and/or during which a specific client need(s) may exist.

EXAMPLES OF THE APPLICATION OF THIS PRACTICE STANDARD

Scenario A

In meeting with a client, a married couple in their late forties, a personal financial planning practitioner (practitioner) was told that the client's principal goals are to have a comfortable retirement and to educate their children through college. The practitioner discussed with the client a broad array of potential goals and obtained information about their values, attitudes, expectations, and time horizons. The practitioner confirmed that these are very important goals to this client and that they are consistent with their values and attitudes.

Next, the practitioner worked with the client to refine these general goals into specific objectives. A "comfortable retirement" was defined as retirement at age 60 with a post-retirement gross income of $50,000 growing to keep pace with general inflation until age 95. "Educating their children through college" was defined more specifically as providing funding for private school for both children, (current ages 10 and 12), through private secondary school and four years of private university costing approximately $15,000 per year per child in today's dollars.

After identifying the client's goals and having refined them into specific objectives, the practitioner turned to the client's current and future needs. The practitioner estimated the client's current cash requirements for living expenses and was informed of a requirement for financial support of parents who are in poor health and not financially independent. The client appeared to be generating about $2,000 per month of discretionary income which is available to fund the retirement and educational goals and objectives. The practitioner is concerned that saving this $2,000 per month of discretionary income over the appropriate time horizons, combined with funds already accumulated by the client, may be inadequate to fund the client's objectives.

The practitioner and the client then placed priorities on the client's objectives. It was determined that providing a good education for their children is the client's most important objective. In light of this priority, the client and the practitioner concurred that deferral of the client's retirement date may be necessary to accomplish this educational objective.

Scenario B

A personal financial planning practitioner (practitioner) met with a client who is the owner of a successful, closely-held business. The client is in her late fifties and has accumulated a substantial estate. The practitioner determined through extensive discussion with the client and use of a questionnaire, that the client's primary goals are ultimately to pass the business to her children and to pay a minimal amount of transfer taxes in the process. The practitioner acknowledges that these are appropriate goals in light of what the practitioner knows, at this point, about the client's situation. However, additional important facts are revealed as their discussions continue.

In further discussions of the client's general goals, the client indicated that her business is central to her life and that she plans to work as long as she is able. Considering her current health, she anticipates retirement at age 75. The practitioner then inquired about the identity, capability, and interest of her children to assume control of the business. It was determined that her son is capable, active in the business, and interested in taking eventual control. Her daughter has a successful career and is neither involved nor interested in the business.

EXAMPLES OF THE APPLICATION OF THIS PRACTICE STANDARD (continued)

The practitioner and the client further discussed the client's goal to have her estate pay a minimal amount of transfer taxes in passing the business to her children. It was determined that her real concern is providing liquidity or a funding source for the anticipated transfer taxes. In probing the client's values, attitudes, and expectations, the practitioner ascertained that the client is unwilling to transfer any ownership or control prior to her retirement or death. Upon retirement, she is willing to transfer ownership only in exchange for a substantial lump sum or a life income adequate to meet her anticipated annual living expenses. This example illustrates a situation in which the client's values, attitudes, and expectations may be in conflict with stated goals.

In ascertaining the client's current cash needs, the practitioner found that the business generates more than adequate cash flow to the client. All current financial needs appear to be met and the client has accumulated a substantial balance in a money market account. The practitioner did not identify any special client needs.

Upon placing priorities on the client's goals, it is determined that the previously unstated goal of retaining current ownership and control has a higher priority to the client than ultimately passing the business to her children in a cost-efficient manner. Accordingly, the practitioner, in helping the client to accomplish her goals and objectives, will have to give that priority due consideration as the engagement proceeds.

Scenario C

A personal financial planning practitioner (practitioner) meets with a client and obtains quantitative data including the client's annual income, living expenses, assets, liabilities, age, health, family data, if applicable, current investment portfolio, copies of relevant documents such as wills, trusts, insurance policies, retirement plan statements, current risk exposures, etc. Armed with this wealth of information, the practitioner proceeds to develop recommendations and to prepare a financial plan for the client.

In this example, the practitioner has failed to apply this practice standard by not ascertaining the client's personal and financial goals, needs, and priorities.

Another example of failing to apply this practice standard is gathering quantitative data as described above, obtaining from the client either by interview or questionnaire (or both) the client's personal and financial goals, needs, and priorities, and then proceeding to <u>tell</u> the client what his or her goals and priorities should be. As discussed in the descriptive explanation of this practice standard, it is essential that the goals and priorities be those of the <u>client</u> and consistent with the client's values and attitudes. They cannot be determined solely by the practitioner. However, the practitioner should help clients modify unrealistic goals.

EXAMPLES OF THE APPLICATION OF THIS PRACTICE STANDARD (Continued)

Scenario D

A CFP designee associated with a major wirehouse securities firm as a stockbroker, receives an unsolicited telephone call from a potential customer to buy 100 shares of a blue chip stock. The CFP designee/stockbroker agrees to execute the caller's request. In this fact situation, the CFP designee has limited the scope of the services to be provided to execution of a purchase transaction. Accordingly, this practice standard would not be applicable to this particular service. The CFP designee/stockbroker would be subject to NASD/SRO suitability requirements and any applicable policies of the securities firm with which he/she is associated.

In the foregoing situation, if the potential customer, in addition to placing the purchase order, informed the CFP designee/stockbroker that the stock was being purchased as part of the educational funding for his son and that he/she had some questions about retirement needs and wanted to know if the stockbroker could advise him/her in these areas, then the CFP designee/stockbroker can still limit the scope of the services to be provided by responding that he/she does not provide those types of services. If this response is given, then this practice standard will not be applicable to the services the CFP designee has agreed to provide.

However, if the CFP designee/stockbroker were to respond by inviting the caller to come to his/her office to discuss these issues, then gathering client data (including determining client goals, needs, and priorities) will become necessary and, accordingly, this practice standard will apply to those services.

Scenario E

A CFP designee associated with a major insurance company as a licensed insurance producer receives an unsolicited visit from a potential customer who is just moving into the area and who wishes to purchase a homeowner's policy for the residence he/she is about to occupy. The CFP designee/insurance producer obtains only the information necessary to write such a policy and a check for the first year's premium. In this situation, the scope of the services to be provided has been limited by the CFP designee to a sales transaction. Accordingly, this practice standard would not be applicable to this particular service.

In the foregoing situation, if the customer were to ask questions about the adequacy of his/her life insurance and/or disability insurance coverages and make an appointment to have the CFP designee/insurance producer evaluate these coverages, then this practice standard would be applicable to those services inasmuch as gathering client data (including determining client goals, needs, and priorities) will be involved.

RELATIONSHIP OF THIS PRACTICE STANDARD TO THE CFP BOARD'S *CODE OF ETHICS AND PROFESSIONAL RESPONSIBILITY*

This practice standard relates to the CFP Board's *Code of Ethics and Professional Responsibility* through the Code's Principle 7–Diligence, and Rules 701 through 703. Rule 701 states that "a CFP designee shall provide services diligently." Rule 702 requires a financial planning practitioner to "enter into an engagement only after securing sufficient information to satisfy the CFP designee that...the relationship is warranted by the individual's needs and objectives...". In addition, Rule 703 requires a financial planning practitioner to "make and/or implement only recommendations which are suitable for the client."

ANTICIPATED IMPACT OF THIS PRACTICE STANDARD

Upon the Public

The public is served when the personal financial planning client relationship is based upon mutually-defined goals, needs, and priorities. Compliance with this practice standard reinforces the practice of putting the personal financial planning client's interest first which is intended to reduce inappropriate recommendations and increase the likelihood of achieving the client's goals and objectives.

Upon the Personal Financial Planning Profession

Compliance with this practice standard enhances the public's perception that determining a client's goals, needs, and priorities is an essential element of the personal financial planning process, and that this essential element must preceed rendering advice or making recommendations. Public awareness of this practice standard serves to distinguish personal financial planning practitioners from others who would claim such professionalism.

Upon the Personal Financial Planning Practitioner

This practice standard defines and clarifies for personal financial planning practitioners the minimum acceptable level of practice for this activity. It is anticipated that this practice standard will not impose a significant practice burden upon those who employ the personal financial planning process in providing personal financial planning services to clients.

RELATIONSHIP OF THIS PRACTICE STANDARD TO THE PERSONAL FINANCIAL PLANNING PROCESS

As described in the **Statement of Purpose for Practice Standards** at page 1, the tasks/activities that constitute the personal financial planning process were identified and ranked by relative importance by CFP practitioners as part of a financial planner job analysis. Within the six general activities of I) Establishing a client-planner relationship; II) Gathering client data; III) Analyzing and evaluating a client's financial status; IV) Developing and presenting the financial plan; V) Implementing the financial plan; and VI) Monitoring the financial plan, that were identified in the job analysis, several tasks were determined to constitute each general activity. The job analysis describes "Gathering Client Data" as being composed of six tasks (see the attached Exhibit A which includes Section 1 of Appendix E of the Certified Financial Planner Licensee Job Analysis Report dated July 1994). This practice standard addresses three of those tasks which have been highlighted in Exhibit A and are as follows:

- Determine client's personal and financial goals, needs, and priorities.
- Assess client's values, attitudes, and expectations.
- Determine client's time horizons.

The task of determining client's personal and financial goals, needs, and priorities received the highest overall importance rating in the job analysis and it is for this reason that this practice standard was the first to be developed and promulgated.

It is anticipated that additional practice standards will be developed and promulgated to address the three remaining tasks which, together with the tasks covered by this practice standard, constitute "Gathering Client Data". See "Explanation of this Practice Standard and Effective Date" at page 2.

1994 Financial Planning Job Analysis
Exhibit A

	Never/Rarely / Occasionally / Often / Very Often	Slightly Important / Moderately Important / Very Important / Critical	IMPORTANCE
SECTION I: FINANCIAL PLANNING PROCESS			
I. Establish Client-Planner Relationships			
A. explain issues and concepts related to the overall financial planning process, as appropriate to the client -	3.20	3.61	0.90
B. explain services provided, the process of planning, documentation required	3.24	3.53	0.88
C. clarify client's and CFP licensees responsibilities	3.14	3.23	0.75
II. Gathering Client Data			
A. obtain information from client through interview/questionnaire about financial resources and obligations –	3.64	3.70	1.06
B. determine client's personal and financial goals, needs, and priorities	3.76	3.76	1.12
C. assess client's values, attitudes, and expectations -	3.47	3.59	0.97
D. determine client's time horizons	3.53	3.58	0.98
E. determine client's risk tolerance level	3.69	3.64	1.05
F. collect applicable client records and documents	3.20	3.34	0.80
III. Analyzing and Evaluating Client Financial Status			
A. Determine the client's financial status by analyzing and evaluating			
• general			
1. current financial status (e.g., assets, liabilities, cash flow, debt management)	3.43	3.51	0.93
2. capital needs	3.25	3.31	0.80
3. attitudes and expectations	3.29	3.41	0.85
4. risk tolerance	3.56	3.56	0.98
5. risk management	3.19	3.17	0.82
6. risk exposure	3.32	3.29	0.82
• special needs			
7. divorce considerations	2.62	2.24	0.37
8. charitable planning	2.39	2.19	0.33
9. adult dependent needs	2.59	2.25	0.37
10. disabled child needs	2.77	1.97	0.32

1994 Financial Planning Job Analysis
Exhibit A

	Never/Rarely, Occasionally, Often, Very Often	Slightly Important, Moderately Important, Very Important, Critical	IMPORTANCE
11. education needs	2.96	1097	0.32
12. terminal illness planning	2.75	2.10	0.35
13. closely-held business planning	3.04	2.52	0.51
• risk management			
14. life insurance needs and current coverage	3.30	3.32	0.82
15. disability insurance needs and current coverage	3.25	3.10	0.73
16. health insurance needs and current coverage	3.09	2.90	0.63
17. long-term care insurance needs and current coverage	2.76	2.52	0.46
18. homeowners insurance needs and current coverage	2.52	2.39	0.39
19. auto insurance needs and current coverage	2.47	2.33	0.37
20. other liability insurance needs and current coverage (e.g., umbrella, professional, errors and omissions, directors and officers)	2.65	2.39	0.41
21. commercial insurance needs and current coverage	2.30	1.80	0.23
• investments			
22. current investments	3.44	3.72	1.01
23. current investments strategies and policies	3.46	3.61	0.97
• taxation			
24. tax returns	3.13	3.23	0.75
25. current tax strategies	3.14	3.28	0.77
26. tax compliance status (e.g., estimated tax)	2.82	2.76	0.54
27. current tax liabilities	2.88	2.88	0.58
28. current retirement plan tax exposures (e.g., excise tax, premature distribution tax)	3.16	2.83	0.62
29. current retirement plans	3.36	3.47	0.89
30. social security benefits	2.68	2.89	0.54
31. retirement strategies	3.36	3.40	0.87
• employee benefits			
32. available employee benefits	3.00	3.07	0.67
33. current participation in employee benefits	3.03	3.13	0.69
• estate planning			

1994 Financial Planning Job Analysis
Exhibit A

	Never/Rarely · Occasionally · Often · Very Often	Slightly Important · Moderately Important · Very Important · Critical	IMPORTANCE
22. income tax projections	2.89	2.89	0.59
23. income tax recommendations	3.01	2.96	0.63
24. income tax projections with strategy recommendations	3.05	2.94	0.63
25. employee benefit projections	2.67	2.53	0.45
26. asset allocation statement	3.04	3.07	0.67
27. asset allocation strategy recommendations	3.15	3.16	0.73
28. asset allocation statement with recommendations	3.20	3.17	0.74
29. investment recommendations	3.37	3.49	0.90
30. investment policy statement	2.94	2.89	0.60
31. investment policy recommendations	3.09	3.01	0.67
32. investment policy statement with recommendations	3.02	2.86	0.61
33. risk management recommendations	3.12	3.04	0.68
34. create a list of prioritized action items	3.10	3.18	0.72
B. present and review the plan with the client	3.54	3.52	0.96
C. collaborate with the client to ensure that plan meets the goals and objectives of the client, and revise as appropriate.	3.55	3.43	0.93
V. Implementing the Financial Plan			
A. assist the client in implementing the recommendations	3.40	3.47	0.90
B. coordinate as necessary with other professionals, such as accountants, attorneys, real estate agents, investment advisers, stock brokers, and insurance agents	3.24	3.08	0.72
VI. Monitoring the Financial Plan			
A. monitor and evaluate soundness of recommendations	3.36	3.25	0.81
B. review the progress of the plan with the client	3.27	3.18	0.76
C. discuss and evaluate changes in client's personal circumstances, (e.g., birth/death, age, illness, divorce, retirement)	3.29	3.06	0.73
D. review and evaluate changing tax laws and economic circumstances	3.20	3.06	0.71
E. make recommendations to accommodate new or changing circumstances	3.30	3.11	0.75

RESPONSE FORM FOR EXPOSURE DRAFT OF PROPOSED PRACTICE STANDARD ENTITLED GATHERING CLIENT DATA: Determining a Client's Personal and Financial Goals, Needs, and Priorities

October 1, 1995
Comment Date: December 31, 1995

1. Is the standard clear to you?

   ☐ Very Clear
   ☐ Clear
   ☐ Somewhat clear
   ☐ Not clear

   Please explain your response.

   ____
   ____
   ____
   ____

2. If this standard were adopted as a minimum acceptable level of professional practice, do you believe it is a standard that is

   ☐ Too low
   ☐ Appropriate
   ☐ Too high

   Please explain your response.

   ____
   ____
   ____
   ____

3. Do you agree that this standard will serve the public by increasing the likelihood of meeting clients' goals and objectives?

- ☐ Strongly agree
- ☐ Agree
- ☐ Agree somewhat
- ☐ Do not agree

Please explain your response.

____
____
____
____

4. Do you agree that this standard will help distinguish personal financial planning practitioners (practitioners) who meet the standard from others who do not?

- ☐ Strongly agree
- ☐ Agree
- ☐ Agree somewhat
- ☐ Do not agree

Please explain your response.

____
____
____
____

5. Do you agree that the adoption of this standard will require changes to practitioners' practices?

- ☐ Strongly agree
- ☐ Agree
- ☐ Agree somewhat
- ☐ Do not agree

Please explain your response.

____
____
____
____

6. What modifications, additions or deletions do you recommend regarding this standard?

____
____
____
____

7. Do you agree that this practice standard is worded in such a manner that all practitioners, no matter how they practice (i.e. as part of a major financial planning organization; as a sole proprietor or partner in a small, boutique firm; as a registered representative with an NASD or NYSE firm; as an insurance agent representing a major insurance company; in a bank, accounting or legal firm, etc.) will interpret their responsibilities under this standard in a similar manner?

- ☐ Strongly agree
- ☐ Agree
- ☐ Agree somewhat
- ☐ Do not agree

Please explain your response.

____
____
____
____

Evaluator: (Optional) ________________________________
(please print)

Instructions for Response Form

This form may be used for comments or suggestions relating to any aspect of the exposure draft that is of concern or interest to you. Return this response form either by mail or fax to:

CFP Board of Standards
Jeffrey B. Mershon, Director of Post-Certification
1660 Lincoln Street, Suite 3050
Denver, CO 80264-3001
Fax (303) 860-7388

EXPOSURE DRAFT

PROPOSED STATEMENT ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE

DEVELOPING A BASIS FOR RECOMMENDATIONS

August 15, 1995
Comment Date: October 16, 1995

Name and Affiliation: F.A. Wilhelm Myrin, II- Chair Personal Financial Planning Cte.
RI Society of CPAs

Comments:

Our committee has reviewed this exposure draft in detail.

Our consensus is that the exposure draft is:

1. Common sense
2. Pretty basic and
3. Very general

Our committee raises no objection to this exposure draft.

Sincerely,

Wilhelm Myrin, II, CPA, PFS
RI Society of CPAs
Personal Financial Planning Committee

Instructions for Response Form

This form may be used for comments or suggestions relating to any aspect of the exposure draft that is of concern or interest to you. Return this response form to the address indicated on the reverse side by the comment date.

EXPOSURE DRAFT

PROPOSED STATEMENT ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE

DEVELOPING A BASIS FOR RECOMMENDATIONS

August 15, 1995
Comment Date: October 16, 1995

Name and Affiliation:

Richard W. Sexson Jr.
Certified Public Accountant
10333 N. Meridian St., #160
Indianapolis, IN 46290

Indiana CPA Society
PFP Committee Member

Comments:

I wonder if the AICPA Guide for Prospective Financial Information is very useful. I understand this to pertain to businesses (and have third parties relying on the information). With personal financial planning this would rarely be the case.

I guess my goal would be to see any proposed statements keep things as simple as possible but still get the job done. We are getting buried in long worded statements I fear.

Most of the proposed statement is clear and well thought out.

Re: item 13 d - just what is "during the course of the engagement"? Hopefully we will not have to reevaluate assumptions on plans long since completed when no current work is performed on client.

Instructions for Response Form

This form may be used for comments or suggestions relating to any aspect of the exposure draft that is of concern or interest to you. Return this response form to the address indicated on the reverse side by the comment date.

PROPOSED RESPONSE TO THE AICPA

REGARDING EXPOSURE DRAFT

PROPOSED STATEMENT ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE

DEVELOPING A BASIS FOR RECOMMENDATION

The **EXPOSURE DRAFT "DEVELOPING A BASIS FOR RECOMMENDATION"** is indicative of the great strides the profession has made in the area of Personal Financial Planning. It is, perhaps, the first proposal that suggests that segmented planning is only appropriate where the CPA knows about the other attributes of the total client situation.

In this connection, the CPA should be an integral part of the <u>entire</u> financial planning process. The CPA should work with the client and other advisors in the allocation of resources toward the myriad of goals which the client may express.

However, the CPA should <u>first</u> develop an understanding of all of the client financial goals and gain an understanding of the client's goal attainment priorities. The CPA should also develop an understanding of the client resources and discuss with the client which resources, in the client's mind, have been allocated to the accomplishment of which of the goals.

With this background, the CPA should be in a position to discuss with the client the reasonableness of a particular client financial goal within the range of goals and resources of the client. If, after review of the other client goals and resources, it appears to the CPA that an analysis for the accomplishment of a given goal will significantly effect resources committed to the accomplishment of other goals, the CPA should obtain client approval for a larger scope of the engagement or decline the engagement.

As an example, suppose that a client is just living within the means available and contributing to a pension plan. To maintain the client's lifestyle in retirement is a significant goal. The client wishes to provide for the education of his three children in Ivy League Schools and the client wishes for the CPA to provide an education funding analysis. It is apparent to the CPA that in order to provide for the education of the client's children will require the reallocation of resources. This situation requires a full financial planning engagement to adequately identify resources for the accomplishment of all of the client goals or modification of those goals. This addition to scope should be discussed with the client. If the client insists upon an educational funding analysis, the CPA should decline the engagement.

Roy Quarve, CPA

MACPA

Maryland Association of Certified Public Accountants, Inc.
1300 York Road, Suite 10
Post Office Box 4417
Lutherville, MD 21094-4417
Phone (410) 296-6250

October 17, 1995

Ms. Susan Frohlich
Technical Manager
AICPA - PFP Division
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881

Dear Ms. Frohlich:

We distributed copies of the August 15, 1995 exposure draft, "Developing a Basis for Recommendations," to our committee members last month. We discussed the draft at our meeting this morning with 17 of our committee members. The Committee members cited that the draft was well written and the content was good. They agreed that the draft was general enough in that it covered variety of issues, and specific enough to meet our needs.

Our congratulations to you on an excellent document.

Sincerely,

Jerome O. Jacobs

Jerome O. Jacobs, CPA
Committee Chairman

HODGE, STEWARD & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

October 16, 1995

AICPA
Ms. Susan Frohlich, Technical Manager
PFP Division
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881

Dear Ms. Frohlich:

I am responding with commentary to the Exposure Draft of the Proposed Statement on Responsibilities in Personal Financial Planning Practice, Developing a Basis for Recommendations.

Point 4(a), page 7, might also suggest a family flowchart, tree, to memorialize the client's family structure in light of the complexities of family structure in the 90's. Examples of areas that cause confusion are multiple marriages, "second families," step-children. This memorialization would minimize the possibility of omission of an heir-at-law from the planning process

Point 7, on page 8, should include clearer guidance on how to define "the client's measurable goals". Defining the goals is the most important cornerstone of the entire planning process. The client requires assistance in clearly identifying and conveying these goals to the CPA. The conclusion of the Recommendations may be rendered meaningless to the client if they do not meet the client's goals. One suggestion for providing guidance is to break the goals into a long term and short term portion, with measurable milestones along the way to determine whether or not the goals are being met. A generic sample list of short term and long term goals may assist the client in assessing their goals and increase their understanding of which of their goals falls into which area.

Point 8, page 8 requires clarification on the methodology the CPA should use to collect "sufficient relevant information." What exactly is "sufficiently relevant information"? Point 8 should refer to point 4(a) for partial guidance to define sufficient relevant information. A standardized checklist of "sufficient relevant information" would assist the client in providing the CPA with the necessary information to develop a complete understanding of the client's financial situation.

3120 HIGHWOODS BLVD, SUITE 207, 919-872-0866, FAX 919-872-2659
POST OFFICE BOX 41168, RALEIGH, NORTH CAROLINA 27629

Point 13(c) should address the need to standardize the methodology of determining the basis of the assumptions utilized in the planning process. The assumptions used in the planning process are so critical to the outcome of the planning and recommendations. There should be guidance to choose the appropriate standards to follow to determine the assumptions. For example, the short term rate of return can be tied into 90 day Treasury Bill interest rate and the long term rate of return can be tied into the average Standard & Poors rate of return over 20 years. The assumptions should be standardized, with choices in each area, in order to prevent disparity in planning results because each planner uses his own set of assumptions.

I hope the above outlined commentary offers some assistance in the task of drafting the Statement on Responsibilities in Personal Financial Planning Practice. I can be contacted at 919-872-0866 if you require additional information concerning the above commentary.

Very truly yours,

Hulene Dian Hill

Hulene Dian Hill

JOEL H. FRAMSON, C.P.A.

An Accountancy Corporation

Specializing in Fee-Only Financial Planning & Investment Management

October 16, 1995

Ms. Susan Frohlich
Technical Manager, PFP Division
AICPA
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881

SENT BY FAX

Dear Ms. Frohlich,

The California Society of CPA's State PFP Committee has reviewed the Exposure Draft on "Developing a Basis for Recommendations". The Committee believes that the Exposure Draft is a well organized and well written general overview of the subject. We have no specific changes to recommend.

If changes are subsequently made to the Exposure Draft, we would appreciate receiving a copy of any such proposed changes.

As part of our review process, we solicited the input of Cal Accountants Mutual Insurance Co (CAMICO), a major professional liability insurance carrier serving many CPAs in California. While CAMICO's reply is not technically a part of our Committee's response, we thought it might be helpful for you to have CAMICO'S comments. John Dodsworth, President of CAMICO, provided the comments attached.

We would be pleased to be involved with the review process relating to any future proposed statements issued by the AICPA.

Very truly yours,

Joel H Framson

Joel H. Framson, CPA/PFS, CFP
Chair, California Society of CPA's
PFP Committee

16055 VENTURA BOULEVARD, SUITE 800 • ENCINO, CALIFORNIA 91436 • (818) 789-3236 • Fax (818) 907-5423

CAMICO

TRANSMITTAL

to: Karen Goodfriend
fax #: 328-7916
re: PFP Exposure Draft
date: October 3, 1995
pages: 1, including this cover sheet.

I have reviewed the Exposure Draft you faxed to me on 9/29/95. My review was primarily focused towards any liability exposure issues. I don't have any specific comments; however...

Our experience indicates that the greatest exposure involving PFP work comes from the lack of clear written communications to the client, particularly regarding the inherent uncertainty of underlying assumptions. The draft mentions in several places that communications "should" be in writing. While I used to consider this type of wording sufficient I don't think it adequately communicates the importance of this basic LP tool. I suspect "must" will be too strong.

Perhaps a section called "communications with client" could be inserted that could expand on the importance of written communications and summarize the items that should be writing . Paragraph 11 is a start but only relates to the "Collecting Information" section. This would provide an easier way for the CPA to identify when and what he/she should communicate in writing. I considered drafting such a section but there are issues involved regarding the kind of language that can be used that I am not familiar with and I decided it should be left to the drafters.

If you have any questions, please feel free to call.

From the desk of...

John A. Backowski
President
Cal Accountants Mutual Ins. Co.
[illegible]
Redwood City CA [illegible]

[illegible]
Fax [illegible]